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**INTERNATIONALIZATION OF GLOBALIZING INTERNATIONALS INTO BRIC
EMERGING MARKETS**

Case study: Wärtsilä's Internationalization into BRIC countries

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ABSTRACT

In today's globalized market place, it is of utmost important to learn how to approach a foreign market as well as what will have an effect on your methods of entry into this one. This project has sought to understand how the internationalization of globalizing internationals is seen affected when entering the BRIC emerging markets. There has been little research, prior to this study, looking into the foreign operation methods used by globalizing internationals when entering the BRIC countries as well as the influencing factors affecting these decisions. In order to gather data for the study, 12 semi-structured interviews were conducted on experienced workers from one case company. This allowed the data to have a bigger depth and provided a better understanding of the topic. The gathered data was organized into categories created through the study's theoretical framework and then analyzed in order to test the different hypothesis. In order to analyze the case company's data, this study looks into their internationalization process, the effect that the change from an international to a global company has had on their operating methods, what motivates them to enter BRIC countries, what influences their entry mode selection into these countries, how they develop these operation methods as well as, why and when they re-evaluate and modify their entry method strategy. This study found that the main reason to enter the BRIC countries was the market potential as well as market access, and the customers' location. Furthermore, some of the biggest influencing factors were the government and regulations, as well as the country's economic development. Last but not least, the interviewees found that the most common reasons for FOM change were in order to react to a changing situation, divest from an undesired partnership or improve their governance. Method combination has only been tested to be used in order to manage unrelated business units. While the findings cannot be generalized, as they are based solely on one case company, this study sets the grounds for future research done on other markets and other companies.

KEYWORDS: Internationalization, Globalization, Foreign business operation modes, Globalizing internationals, BRIC countries, emerging countries, influencing factors, mode package, mode switching.

1. INTRODUCTION

During the 20th century, the presence of internationalizing local companies started increasing, later to be known as traditional internationalizing companies (Johanson and Vahlne 1977).

Both internationalization and globalization are largely studied topics in the academic world (Johanson and Vahlne 1977; Beamish and Calof 1995; Johansson and Vahlne 1990; Luostarinen 1979; Cavusgil 1984; Douglas and Craig 1996; Albrow 1990; Holton 1998; Gaburro and O’Boyle 2003; Knight and Liesch 2016). Internationalization can be understood as all those activities in a company containing foreign operations (Turnbull 1987) as well as the increasing involvement in international operations (Luostarinen and Welch 1988). Globalization is different than internationalization in many ways, some say that this one is an “advanced form of internationalization” (Dicken 1992), however, globalization requires a higher degree of integration within the company’s foreign activities (Clarck 1999).

The research of the above has been initially focused on MNCs and already global companies (Gabrielsson 2004) to then be categorized into *traditional internationalizers* (Johanson and Vahlne 1977; Chetty and Campbell-Hunt 2004), *globalizing internationals* (Gabrielsson 2004; Gabrielsson et al. 2006; Gabrielsson et al. 2012; Gabrielsson and Gabrielsson 2004), *born globals* (Welch and Luostarinen 1988; Rennie 1993; Oviatt and McDougall. 1994, 2004; Knight and Cavusgil 2004; Knight et al. 2004; Chetty et al. 2004; Mehali et al. 2005; Rialp et al. 2005; Luostarinen and Gabrielsson 2006) and *born-again global firms* (Bell and McNaughton 2001; Jautunen, Nummela, Puumalainen and Saarenketo 2008; Gabrielsson, Kirpalani, Dimitratos, Solberg and Zucchella 2008).

While traditional internationalizers and born globals have a lot of literature research done on them, just a few academic articles can be found linking globalizing internationals to foreign business operation methods. Furthermore, there is a lack of literature studying globalizing internationals entering BRIC emerging markets as well as what influences this method selection. Therefore, the aim of this master’s thesis will be to investigate what

foreign operation method globalizing internationals use when entering BRIC emerging markets as well as what influencing factors have an effect on this method selection.

For instance, Liu et al. (2011) studied the ownership, strategic orientation and internationalization of firms in emerging markets; to be more specific, they did a survey with Chinese companies, in which they concluded that “ownership structure, specifically ownership concentration and CEO ownership, can lead firms to choose different strategic orientations”. However, those were not the only findings; they also stated that “entrepreneurial orientation directly promotes a firm’s internationalization activities”. (Liu et al. 2011.) On the other hand, no linkage was made between these findings and a specific FOM. Gabrielsson et al. (2012), state that the internationalization method a firm uses will vary depending on what type of firm we are facing; a traditional firm, a globalizing international or a born global, as explained above. However, they do not link this research to a BRIC country neither to a specific FOM or potential influencing factors affecting their success in the market.

Despite many studies show that cultural differences are one of the leading causes and influencing factors for internationalization failure, there are many other factors that play an important role during that process (Tihanyi et al. 2005). Governments, global and local economies, competitors, company capabilities, among many others, are just a few influencing factors that a company should take into consideration when internationalizing or when choosing a specific business operation mode (Enderwick 2007; Martin and Rogers 2000; Ramey and Ramey 1995; Pallage and Robe 2003; Harvey 1995).

Wright et al. (2005) emphasize the increasing importance of emerging economies in their study; they remark the fast growth of 50 emerging economies and their possible importance in the large scale economy. They divide their study based on four strategic options: “firms from developed economies entering emerging economies, domestic firms competing within emerging economies, firms from emerging economies entering other emerging economies and firms from emerging economies entering developed economies”. (Wright et al. 2005.) While this study is 10 years old, they raise some

interesting issues that could be further developed; for instance, the internationalization mode companies decide to use.

For the purposes of this research, this one will be focused solely on the BRIC countries; these are Brazil, Russia, India and China (Statista 2015; O'Neill 2001). China is considered one of the biggest markets in the world with still increasing potential (Wilson and Purushothaman 2003; O'Neill 2011)- While China keeps being the leading emerging market, their economy is stalling, therefore, the ones following like India, Brazil and Russia might become more attractive to investors. These BRIC contain the manpower that companies are looking for when expanding their business, as well as the lower prices. (Agility 2015.)

All in all, emerging markets are a very interesting topic for research, given the amount of opportunities they offer to both new and mature businesses. Furthermore, it is of great importance to be aware that, regardless of how attractive these countries may seem, they also have their downsides; corruption, poor infrastructures, poor and uneven economic development or even bad connectivity, are just some of these. This is why, in order to assess what business operation modes companies might include in their strategic decisions, they must balance these influencing factors first. (Cavusgil et al. 2002; Zahra 1991; Zahra 1993; Zahra, Neubaum and Huse 1997; Cavusgil 1985; Johanson 1997; Van Wood and Goolsby 1987.)

1.2 Research question and objectives

The main purpose of the study is to identify those business operation modes that work better for Globalizing Internationals when entering the BRIC emerging markets. This research strives to show the most important influencing factors that enhance or disturb the success or failure of companies when choosing a foreign operating method in order to internationalize.

The different business operation methods are generally well known to scholars and companies using them. However, little is researched about business operation methods in emerging markets and their influencing factors. Therefore, the main research question will be as follows:

What influencing factors have an effect on the foreign operation method chosen by globalizing internationals when entering the BRIC emerging markets?

In order to provide answers to the above mentioned research question, sub-objectives will be listed below in order to create a clear pathway for the thesis:

- Identifying how the change from internationalization to globalization has had an effect on the operation methods used.
- Examining internal and external influencing factors, as well as market characteristics, that play an important role in the process of internationalization for globalizing internationals in the BRIC emerging markets.
- Studying what role mode switching and mode combination play into the internationalization process of a company.

By answering to these objectives, I believe that I will be able to create a model that showcases the process of internationalization and its challenges for globalizing internationals in emerging markets.

1.3 Delimitations

This study will only focus its empirical research on one single case study and the country conditions in the BRIC emerging markets, therefore, while generalizations could occur to refer to similar conditions, the data collected will only correspond to this one case. This research will also focus on the field of internationalization, as well as the field of

macroeconomics and culture. This research will not be set from the point of view of marketing neither other fields unrelated to the ones mentioned above.

It will be set on the organizational need for growth and in the globalization context, in which companies seek new and innovative ways to move across borders successfully to establish new business branches abroad. This research will also cover those influencing factors that affect the process of internationalization in emerging countries; it will not cover companies expanding in already-developed countries. This research will be based on several internationalization theories like the Uppsala model (Johanson & Vahlne 1977), and the globalizing international approach (Gabrielsson et al. 2012). Furthermore, it will include business operation modes theory like the concept of franchising, exporting, licencing, FDI, joint venture, among other.

In order to acquire the needed knowledge about the case company in emerging markets, qualitative methods like the interview will be used. Therefore, any quantitative study will not be regarded in this project. All the knowledge gained throughout the project will be used to create an original model to help gain understanding over what has an effect over the success or failure of a company expanding to a BRIC emerging market.

1.4 Definitions

In order to lay out the main theories and models, as well as concepts that might be used in the thesis, following there will be short definitions of these explaining the main key ideas.

Luostarinen and Welch (1988: 84) stated that *internationalization* can be understood as “the process of increasing involvement in international operations”. Beamish and Calof (1995), tried to re-invent this definition by saying that internationalization is the process of firm operation adaptation into international markets. *Globalization* can be understood as a more advanced formed of internationalization (Dicken 1992); globalization demands

a higher degree of integration across the company's functions and economic activities (Clark 1999).

The Uppsala model was defined by Johanson and Vahlne (1977) and this one describes internationalization from an evolutionary and learning point of view. Its main goal is to study the way in which an organization gains their knowledge through their international operations. A *globalizing international* is that company that had a slow start set in the local country, like a traditional company, to then have a rapid globalization growth. A *traditional internationalizer*, could be understood as that company with a long history in the local country and that slowly internationalizes. However, these companies do not reach the global status. Generally, they only reach international status. (Gabrielsson et al. 2012.) Many define *born globals* as a company that has gone global within the first years since their inception an about 25% of their sales are from exports (Knight et al. 2004). However, other scholars say that they must have an export-to-domestic sales of fifty percent (Gabrielsson & Gabrielsson 2004).

An *MNC*, or a multinational corporation, can be understood as a corporation whose facilities, as well as other company assets, are found in at least one country that is not the home country (Aharoni 1971). These companies tend to be rather large corporations that account for a big number of employees. An *SME*, or small and medium enterprises, can be understood as a company that keeps their income under a certain standard. In the European Union, small-sized company is defined as an organization that accounts for less than 50 employees, while a medium-sized company is that one that accounts for less than 250 employees. (Europäische Kommission 2005.)

A *foreign operation method* is that arrangement that a company uses when expanding their business across their national border. These operation methods can be used as individual or as packages, meaning that a company may combine more than one in order to enter a certain market. (Welch et al. 2007; Petersen & Welch 2002.)

1.5 Thesis structure

This report will be clearly divided into 5 parts; initially, there is the introductory section in which the background of the study is explained and the research question and objectives are laid out. In this section there are also the main definitions, delimitations of the study and the report structure. The next section of the study is the theoretical setting of the thesis, in which all the relevant theories are defined and explained with real examples. The third section is the methodology section; in here the method of research is explained. The fourth section contains the empirical results of the study and the analysis of the research findings. Last but not least, there will be the summary and conclusions section, in which the managerial implications of this research as well as the limitations of this one will be explained. (See figure 1)

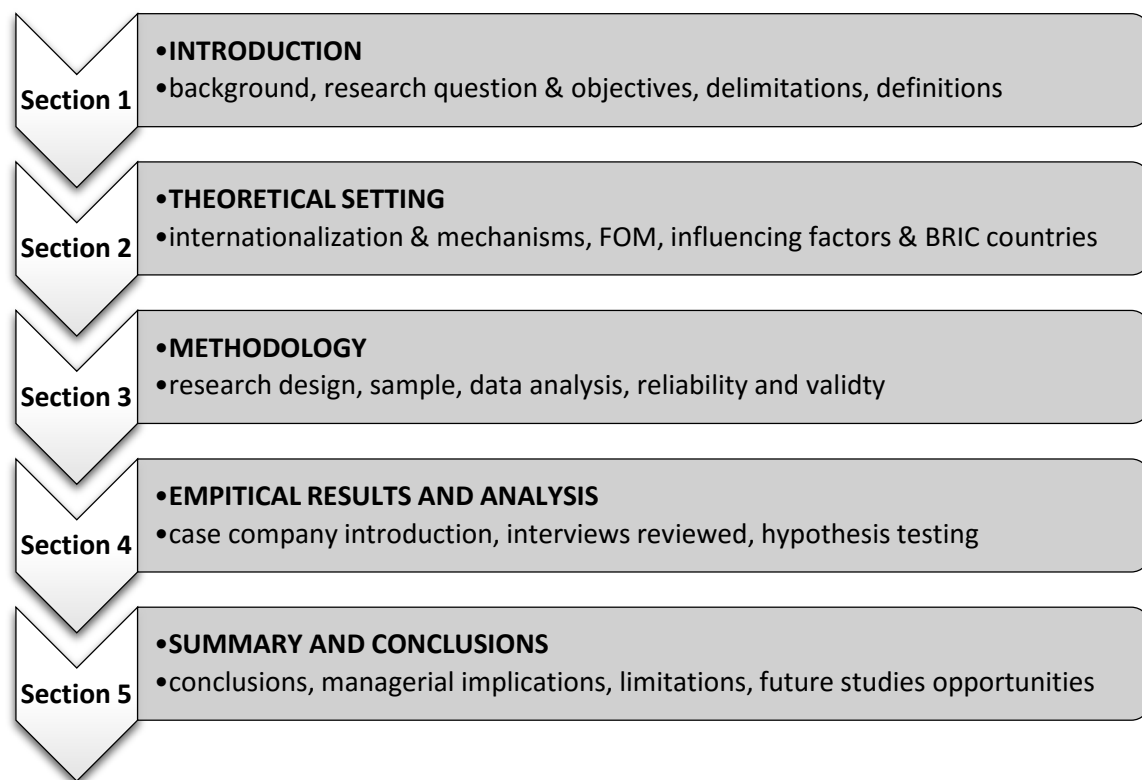


Figure 1: Thesis structure

2. THEORETICAL SETTING OF THE THESIS

Before getting to the empirical part of this study, the main and most relevant theories for this will be defined in this section. It is important to understand what internationalization is before analyzing how it is done. Also, this section will provide a deeper understanding on what foreign operation methods are and what types exist. Lastly, this part of the project will also provide an understanding on what are the internal and external influencers that affect a company's decision when internationalizing.

2.1 From Internationalization to Globalization and dimensions

Internationalization is a very broad word and can be defined in several different ways. Many scholars have defined this word from different points of view and in this section these different definitions will be collected and compared in order to get a general idea of what internationalization is and what it implies.

Some used internationalization in order to explain the outward activities in a company's foreign operations (Turnbull 1987). Nevertheless, Luostarinen and Welch (1988: 84) created an early definition for internationalization stating that this one was understood as "the process of increasing involvement in international operations". Despite this definition being a very broad statement, it provides a simple view of what this process is about. They also stated that in order to assess the degree of internationalization of a company, one should look at their foreign sales and compare it to their total sales (Luostarinen and Welch 1988: 85). Beamish and Calof (1995), explained that internationalization can also be understood as a form of de-investment, therefore they created an even broader definition for this term; saying that internationalization is "the process of adapting firms' operations (strategy, structure, resource, etc.) to international environments".

Johansson and Vahlne (1990) complemented the above definitions by adding that this internationalization process is executed differently depending on the company's strategy;

some firms do it through the establishment of subsidiaries or joint ventures, via licensing agreements or other foreign operation methods.

However, the above definitions are not the only definitions as this topic has been widely researched (Johansson and Vahlne 1977; Luostarinen 1979; Cavusgil 1984; Johanson and Vahlne 1990; Andersen 1993). The traditional views on the process of internationalization have prevailed and are today the basis of newer researches (Knight and Liesch 2016).

Taking all the above definitions into account, one can say that internationalization in a company setting is that activity which corporations use in order to operate across national borders, as well as to make their products and services more globally likeable to other culture, making it easier for a corporation to adapt in a foreign country.

There has been a lot of talk about the “global-market-place”, in which companies view the world as one market (Cragg 1998). The global market has become increasingly populated by companies of different sizes, different industries as well as different nationalities; these companies have developed specific strategies that allow them to compete effectively in this global market place (Douglas and Craig 1996). Globalization signifies the winning of a “capitalist world economy tied together by a global division of labor” (Wallerstein 1974) in a set time and space (Harvey 1989; Holton 1998); in other words, globalization can be understood as “all those processes [in which people] are incorporated into a single world society” (Albrow 1990; Holton 1998). Dicken (1992), stated that globalization differs considerably from internationalization; globalization is considered a “more advanced and complex form of internationalization” because this one demands companies a higher degree of functional integration amongst their internationally spread economic activities (Clark 1999). Globalization simplified can be understood as a borderless world (Giddens 1990; Appadurai 1990; Ohmae 1992; Chang 2004).

Oman (1996) defines globalization as that accelerated growth of certain economic activities across both national and regional borders. It can be distinguished by the increased movement of goods and services, both tangible and intangible. Globalization is

a reality because of the actions of governments in reducing movement impediments as well as the facilitation of technological progress in transportation and communication. (Oman 1996). In other words, it is the process that corporations implement in the moving of their factories and products around the world at a higher rate than ever before in order to seek cheaper labor and raw materials (Ritchie 1996). More recent academic works have defined globalization as “the establishment of the global market free from sociopolitical control” (Nikitin and Elliott 2000; Gaburro and O’Boyle 2003), the “process of cross-cultural interaction, exchange and transformation” (Cooppan 2001) as well as the integration of the world economy (Gilpin 2001). Globalization is translated into mass migration, multiculturalism and cosmopolitanism (Szeman 2003). Nayed, Rodhan and Stoudmann (2006), after a very thorough review on previous literature, created their own definition of globalization saying that this one is “a process that encompasses the causes, course and consequences of transnational and transcultural integration of human and non-human activities”.

Internationalization is usually seen as bi-dimensional: geographically and based on the mode of operation (Vahlne et al. 2011). However, Porter (1986 a, 1986 b) stated that internationalization accounts for two more dimensions, configuration and coordination; configuration stands for the design of the value chain and coordination is creating a role and functions-adjusting system of interdependent units. Other authors like Porter (1986) or Kutschker (1994) also defined internationalization and, furthermore, they defined several different dimensions to internationalization. These dimensions are: the number and the geographic-cultural distance of the organization within the foreign market they are entering, the extent of value added in these markets and the degree of integration the corporation has (Kutschker et al. 1997: 104-105).

Globalization, together with the internationalization dimensions already mentioned, is completed by many different variables; the economy, culture and politics of the foreign markets are just a few of these variables. Furthermore, companies need to consider media and the public opinion, population growth, urbanization, education, among many other. (Chhabra 2015.)

Distance is the first dimension categorized by Kutschket et al. (1997). Several studies expressed the importance of understanding the term *psychic distance*; this talks about the language differences, different education levels and business practices within countries, different cultures as well as different industrial developments (Johanson & Vahlne 1977; Johanson & Wiedersheim-Paul 1975; Richardson 2014). The above mentioned difference mark the pace and type of internationalization a company might implement (Richardson 2014).

The degree of internationalization or globalization a company has depends on several things; for instance, a company is generally considered more or less international by evaluating how many different countries they are conducting business in. On the other hand, the number of countries is not enough; this number goes hand in hand with the geographic and cultural distance between these countries and the home market. (Kutschker et al. 1997: 105.) For example, a company conducting business in Japan, USA, Brazil and South Africa would have a higher degree of internationalization than a European company conducting business only within European countries. Cultural distance, both high and low, can be a major deciding factor in internationalization success or failure (Wang and Schaan 2008). Studies have demonstrated that companies often choose highly cultural distant markets quite soon in their internationalization strategy (Ojala, 2008; Ruigork & Wagner, 2003; Zou & Ghauri, 2010).

Next, he defines value-added activities; these are used in order to assess the involvement of a company in a certain foreign market, as their activities can go from only exporting to a self-sufficient subsidiary. These value-added activities are purchasing, research and development, manufacturing, logistics and sales. (Kutschker et al. 1997: 105.) The more activities a company sets in a certain foreign market, the more value-added the organization is dedicating to that market. One has to take into account, that one of the most important activities for the internationalization process to work is the decision to invest into cross-border activities rather than granting licenses on the company's products. (Dunning 1998; Hassel, Höpner, Kurdelbusch, Rehder and Zugehör 2003.) This gives the company a set of skills and knowledge that otherwise cannot be acquired.

The third dimension considered by Kutschker et al. (1997: 107) is the degree of integration across borders that the organization has. They proposed to divide the degree of integration in four different aspects: (1) integration increases with the intensity of flows of resources within the corporation, (2) the integrating effects increase with the number of people involved in the exchange of resources and information, (3) the more common knowledge and shared corporate values the people in the organization have, the higher the degree of integration and, (4) the greater the “built-in-flexibility of the corporation’s infrastructure is” the greater the integration level will be. (Kutschker et al. 1997: 107.)

The fourth dimension, time, is added to the three-dimensional matrix above explained due to the need of understanding the process of internationalization along time not only at a certain point in time. Therefore, in order for the three dimensions to make sense in the course of time and be able to see the evolution of a company, scholars have added time to the mix. (Kutschker et al. 1997: 108.) Timing and pace characterize a company’s path to internationalization; furthermore, they help classify companies based on their internationalization patterns (Hewerdine and Welch 2013).

2.2 Mechanisms of internationalization

In order to expose the basic assumptions and limitations of each approach, one has to first expose these approaches. The internationalization approaches we will be looking at will be: the OLI/eclectic approach, the Uppsala model and the network model and the Born Global approach.

2.2.1 The Uppsala Model

The Uppsala model is one of the most researched four theories of internationalization, other approaches discussed by many scholars are: the eclectic paradigm and transaction cost analysis, the interactive network approach of the International Marketing and Purchasing (IMP) group as well as the business strategy approach (Whitelock 2002).

The Uppsala model was defined by Johanson and Vahlne (1977) after having conducted some empirical research on several Swedish manufacturing firms from their studies at the international business department of Uppsala University. One of their most basic assumptions within the model was that “the lack of knowledge is an important obstacle to the development of international operations” (Johanson et al. 1997: 23). This model describes internationalization from an evolutionary and learning point of view. One of the central aims of the Uppsala model is to assess how an organization learns and acquires knowledge through their different international operations.

Johanson and Vahlne (1977) argued that there are four key features of the Uppsala model; one of the features is that companies improve and develop their foreign activities over time as well as in an incremental way, and that they base it on their knowledge development. They also argue that this development is explained by the company’s psychic distance, meaning that firms develop first to markets that are psychically relatively close and into those more distant markets as their knowledge develops.

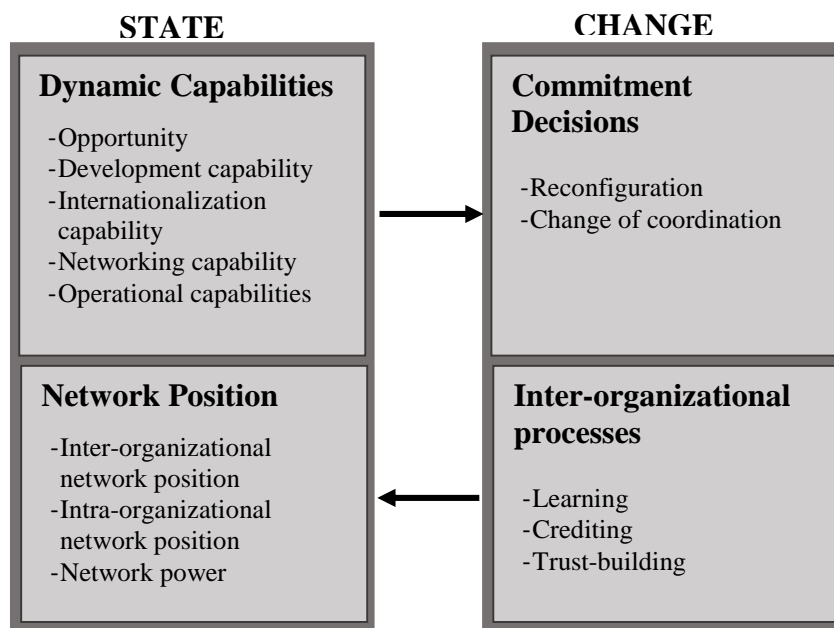


Figure 2: The Uppsala model updated

(Johanson & Vahlne 2013)

Some assumptions from in the Uppsala model are that the model is based on behavioral theories and an incremental decision-making process but competitive market factors are

not so taken into account. Also, in this model there is a learning process from the export to FDIs. (Hollensen 2014.)

When it comes to the limitations of the model, there are two types of limitations; theoretical and empirical. At the theoretical level, there are no market or firm contingencies, there is also a high subjectivity when it comes to psychic distance, and this approach is focused mainly on firms on the early stages of internationalization. This approach is also not valid for service industries. On the empirical level, this approach is too deterministic; it has a narrow chain establishment and a high homogeneity on the trends. (Mellahi et al. 2005.)

When looking at the Uppsala model, one can see that this one encourages the pattern of chain establishment and it suggest four ways companies can go; on the one hand, a company can choose to not have regular exports which would imply a null or low commitment of resources as well as no need of a regular information channel on a certain market. Another possibility would be export via independent representatives which would imply the need for regular information about the amount of sales as well as possible influencing factors that might affect the deal. These two types of export would be patterns of a traditional company. (Johanson et al. 1977.) A traditional company could be understood as that one slowly internationalizes but does not reach the global status (Gabrielsson et al. 2012). Because Kalevala Jewelry, a Finnish company, has all their operations in Finland and only accounts for 20% of foreign exports in total, it is considered to be a traditional international company with a slow internationalization process (Kalevala Jewellery 2015).

A third possibility would be establishing a sales subsidiary in the foreign market which would require a controlled information channel to that market as well as a direct experience of the resource influencing factors. Lastly, there is the possibility to establish the production or manufacturing in the foreign market directly; however, this option requires a larger resource amount and commitment. (Johanson et al. 1977.) The last two types of patterns could be understood as globalizing international. A globalizing international is that company that has started slow, like a traditional company, to then

have a rapid globalization growth. (Gabrielsson et al. 2012.) The Finnish MNC Wärtsilä has a long history in the market with almost 200 years of history. It started as a traditional company, slowly evolving and slowly moving operations abroad, until the late 20th century when they saw a rapid increase in their global operations. This is why Wärtsilä would still be categorized inside the Uppsala model as a globalizing international. (Wärtsilä 2015.)

2.2.2 The Oli Eclectic Approach

This approach has been, for many years, the predominant framework that has been used by multinational companies in order to understand a variety of economic theories and determinants of foreign direct investments as well as foreign activities. This approach tries to explain “the extent, form and pattern of international production” and it set on the “juxtaposition of the ownership-specific advantages of firms contemplating foreign production [...] the propensity to internalise the cross-border markets for these, and the attractions of a foreign market for the production” (Dunning 1988). This approach bases its international market entry decisions in a rational manner and on the cost of the transaction (Whitelock 2002).

This approach states that “the extent, geography and industrial composition of foreign production undertaken by MNEs is determined by the interaction of three sets of interdependent variables”. The first variable is the competitive advantages – ownership advantages - of a certain enterprise when wanting to do an FDI; the bigger the competitive advantage, the more chances to succeed in engaging in an FDI. The second variable is the locational attractions that different countries or country regions have when a multinational is considering where to set their value-adding activities. Lastly, the third variable from the OLI approach is the framework or international advantages offered by this one in order for multinational companies to be able to find alternative ways to organize the realization and exploitation of their main core competences. (Dunning 2000: 163-164.)

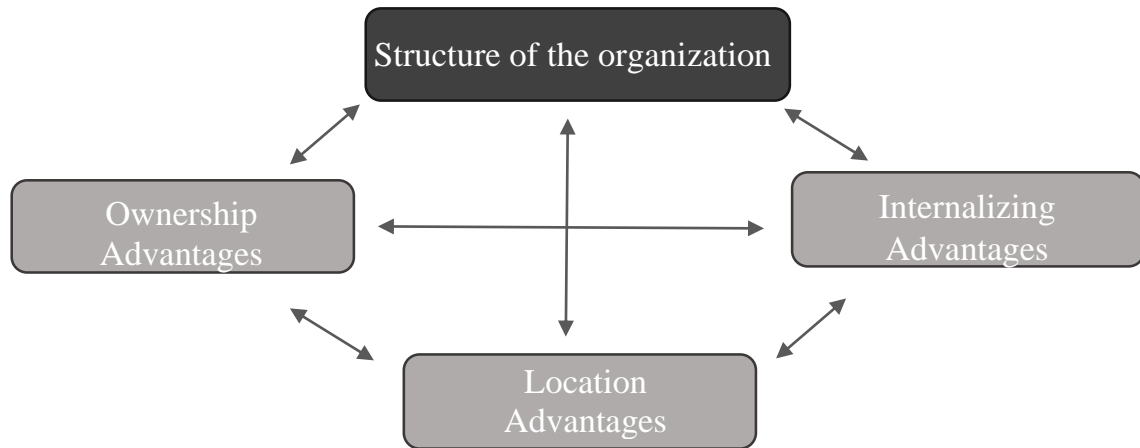


Figure 3: The OLI-Eclectic approach: 3 influencing factors

(Adapted from Dunning 1979; Dunning 2001)

The OLI / Eclectic approach has as well some assumptions and limitations that helped shaped it. One of the main assumptions is that interaction counts when it comes to internationalization, however, none of its literature can prove that. Furthermore, this approach is based on a combination of different theories in order to provide a more comprehensive explanation, however, these theories explained separately do not provide a clear model. When it comes to limitations, this model is not created thinking of the long-term process of international expansion and it focuses mainly on production. What is more, the study backing this approach is mostly done on multinational companies. (Dunning 2000.)

When looking at the OLI/eclectic approach a clear pattern of investment shows, however, this pattern varies depending on the context this one is found; for instance, as already mentioned above, the greater the competitive advantages of the firm, the greater the opportunity of this firm to engage or increase their foreign production. This would lead a firm to increase their amount destined to investment, as in order to create competitive advantages one needs to dedicate resources to them. (Dunning 2000.)

A good example of prioritizing and good allocation of resources in order to create competitive advantages is the one of Salcomp. In 1983 Salcomp was acquired by Nokia and by 1988 they became the world's first switch mode quick charger for mobile phones. In 1998 they began their contract manufacturing in China and by 2002 they opened their own production plant in China. In 2004 they stopped their manufacturing activities in Finland and they began to expand further; Brazil, Taiwan, other business activities in China like an R&D centre. (Salcomp 2015) China in particular, provides a lot of cheap labor together with a very big growing market, which makes it possible for a country like Finland to compete in it (Eurofund 2003).

2.2.3 The Network model

According to the network model approach, “internationalization of the firm means that the firm establishes and develops positions in relation to counterparts in foreign networks”. This just described can be achieved through the creation of positions that relate to the counterparts in national nets that may be unknown or new to the firm (international extension), another way to do so would be by developing the already existing positions and increasing the amounts of resources in the foreign nets (penetration) or it could also be done by incrementing the co-ordination between positions in the different national nets (international integration). (Johanson & Mattsson 1988.)

One of the greatest assumptions of this approach is that they state what keeps a network together are technical, economic legal and personal ties. However, that is a very subjective statement as there might be many other reasons why networks are created and why they stay together. Another assumption of the study is that the manager's influence on the personnel is mostly stronger on the beginning, however, later on routines and systems are an important influence. Again, another subjective thought, as a good manager should always have an influence over their employees and the processes of the company. The last assumption is that the development of the firm is dependent on the market position of the network. While this might be partly true, there are so many other factors affecting a firm's development; quality of the products, loyal customers, innovative thinking, good partnerships, etc. (Johanson & Mattsson 1988.)

As in every study, this approach has several limitations if it wants to be implemented. The influence individuals may have over a company can sometimes be neglected and, therefore, it becomes quite challenging to choose what countries to enter and what entry modes to use when doing so. Furthermore, some companies have a hard differentiating between changes and drivers of change. (Johansson & Mattsson 1988.)

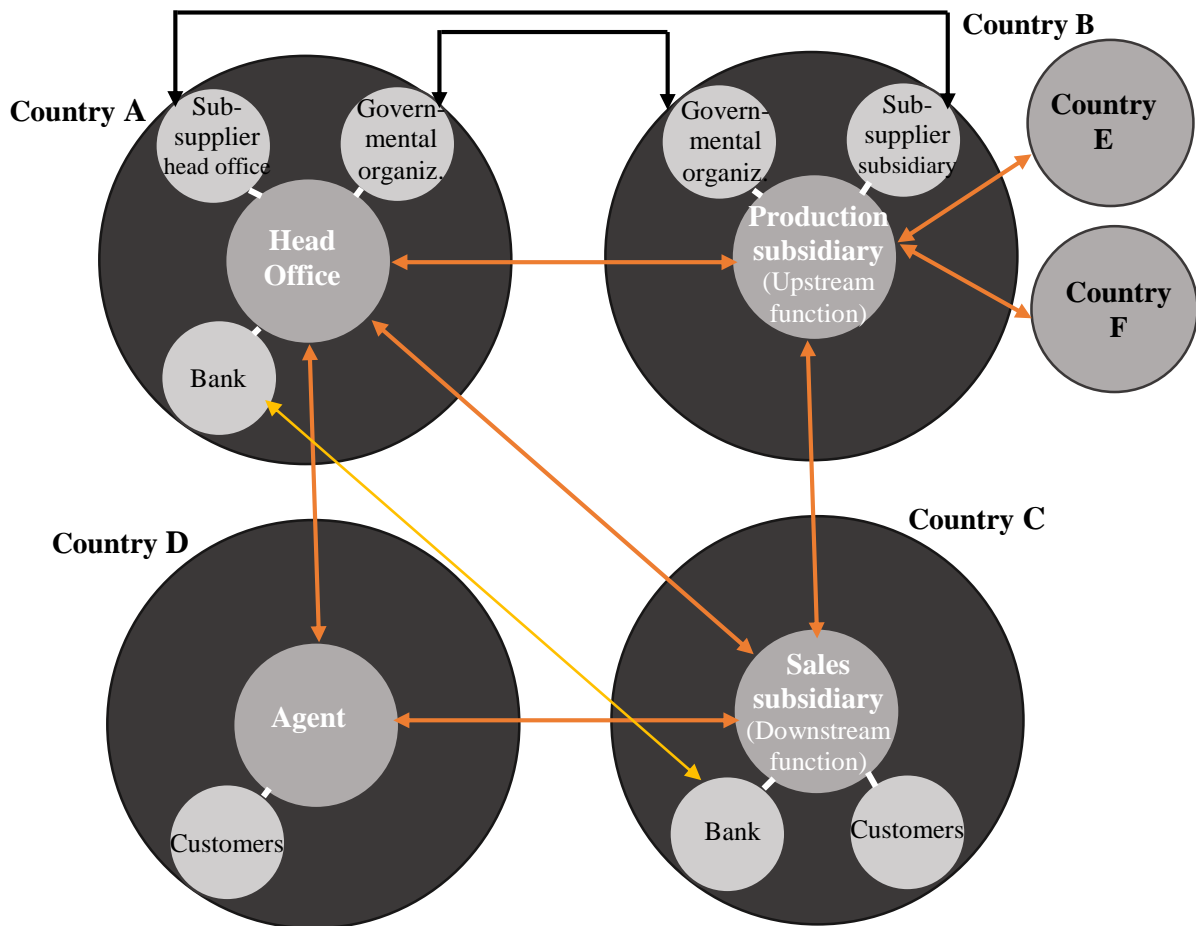


Figure 4: Example of an international network

(Hollensen 2007: 71)

One of the patterns that companies follow when using networks would be an acquisition or a strategic alliance in order to gain innovative technology or the knowledge to build that technology, much needed for their internationalization (Chetty & Stangl 2010). By using networks, companies can share information and gain new knowledge that helps them build stronger competitive advantages (Johansson & Mattsson 1988). Taking into

account Kutschker et al. (1997), VACON (2015a) would be considered to have a high degree of distance as they are present in several countries with different cultural backgrounds all around the world and with high cultural distance. The amount of value-added activities in different geographical and cultural areas is high, therefore VACON's level of internationality is also high. Last but not least, one must consider the level of integration of the company; given that they have so many sales representatives and partners in many different countries, one could say that they are well-integrated locally and they are able to reach their local customers' needs making them again a highly internationalized company. (Vacon 2015b.)

2.2.4 Globalizing Internationals

For the purposes of this research, the focus will be set on the globalizing internationals company type. A globalizing international company is that one that has started the internationalization of their businesses within "its home continent after the domestic period and only then started to globalize outside its home continent" (Luostarinen and Gabrielsson 2002). In order for globalizing internationals to live up to their full potential, they must have a "well-planned global strategy". Even if resources availability is not an issue for these type of companies, they face big managerial challenges; because they tend to be big companies in size and have many international business portfolios, they need to assess the new global customer's needs and focus on the products that meet those requirements before internationalizing. (Gabrielsson and Gabrielsson 2004.) Globalizing internationals can be considered global when "over 50% of their sales are derived outside their home continent from many foreign countries (Gabrielsson et al. 2004; Luostarinen and Gabrielsson 2002).

Gabrielsson et al. (2004) described the development process of globalizing internationals as a three-phase model they called "global expansion". Phase one is the international market entry phase; in this phase, the company aims to expand geographically into the target international markets. Phase two was called international market penetration stage; once the company has begun their international expansion, they start looking for new growth potential as well as further expansion in countries they are already operating in. The global alignment phase is phase three; this phase "is characterized by the adoption of

a global orientation in strategy development and implementation”. (Gabrielsson et al. 2004.) This global strategy grants the company with an opportunity to be able to give better service to their customers abroad (Yip 1989).

The behavior of globalizing internationals is different from that one of born global companies (Gabrielsson and Gabrielsson 2003); as born globals are companies that started their globalization activities without going through any domestic phase or internationalization phase (Gabrielsson et al. 2006).

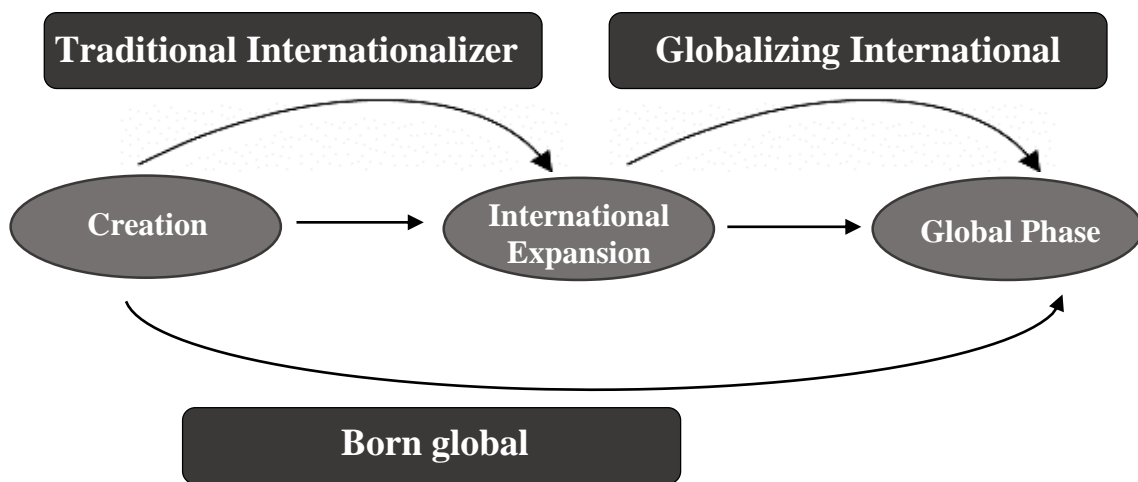


Figure 5: Understanding the globalization paths model

(Adapted from Gabrielsson et al. 2012)

2.3 Foreign Business Operation methods

A foreign operation method can be understood as the organizational arrangements that a company uses in order to create or conduct an international business activity. Sometimes companies use package operation modes, meaning that they use more than one method to enter a country. (Welch et al. 2007; Petersen & Welch 2002.) Root (1994) defined an operation mode as “an institutional arrangement that makes possible the entry of a company’s products, technology, human skills, management, or other resources into a foreign country”. Cavusgil et al. (2002) divided the different operation methods into three categories: contractual modes, exporting modes and investing modes. This section’s goal

is to provide a deeper understanding into each operation method, therefore, each type will be explained as well as the strengths and weaknesses of each mode. (See Figure 8)

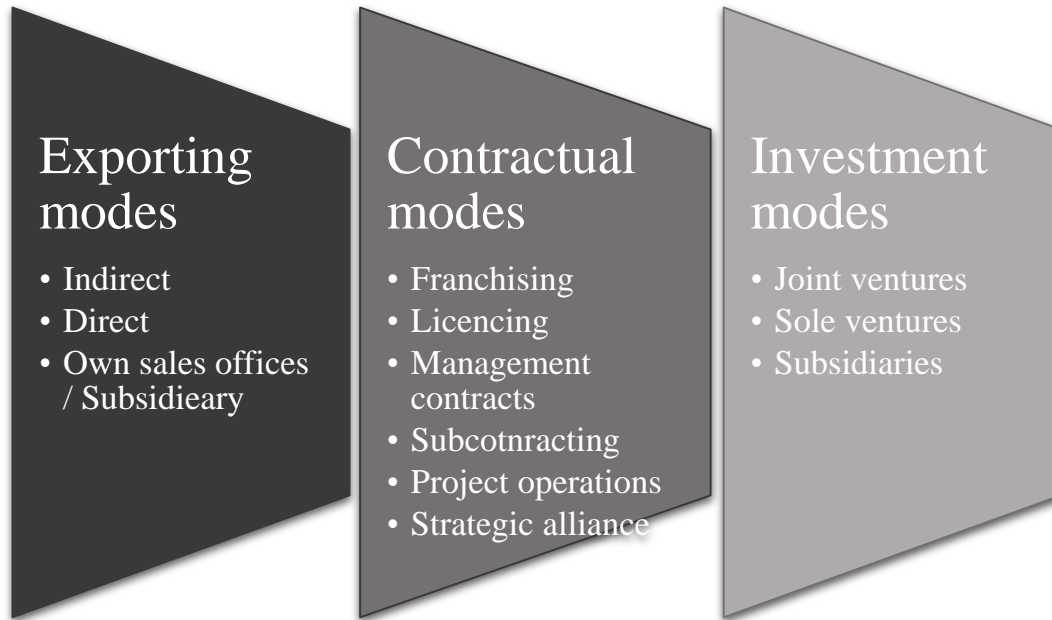


Figure 6: Foreign business operation methods classification

(Adapted from Welch et al. 2007)

2.3.1 Exporting

Exporting is one of the less risky and most used modes of internationalization and it simply means the shipment of goods out of a country. The seller of these goods is called the exporter and the goods' receiver is the importer. The goods are sold from the home country of the exporter to another market of interest. (Joshi 2005; Knight & Cavusgil 2005.) There are many reasons why exporting should be used, especially for new firms lacking resources (McCann 2013). It is a way to gain international experience and the firm gains the ability to develop their products at a low cost while differentiating them. This entry method requires a very little initial investment if compared to other methods of expansion. However, given that the risks taken with this method are lower so are the returns on the investment. While managers can have a great operational control, they lack marketing control, given that it is hard to exercise control over how the importer will market the product. (Welch et al. 2007: 239.)

It is arguably harder for SMEs to sell goods or services to foreign markets rather than to the domestic market. This is because these companies do not have the resources to invest on acquiring the necessary knowledge from the target market; trade regulation, cultural differences, or simply language differences may place high barriers when exporting. (Daniels et al. 2007.) Furthermore, once the product is exported, the exporter faces the risk of imitation or misrepresentation of their product (Welch et al. 2007: 247).

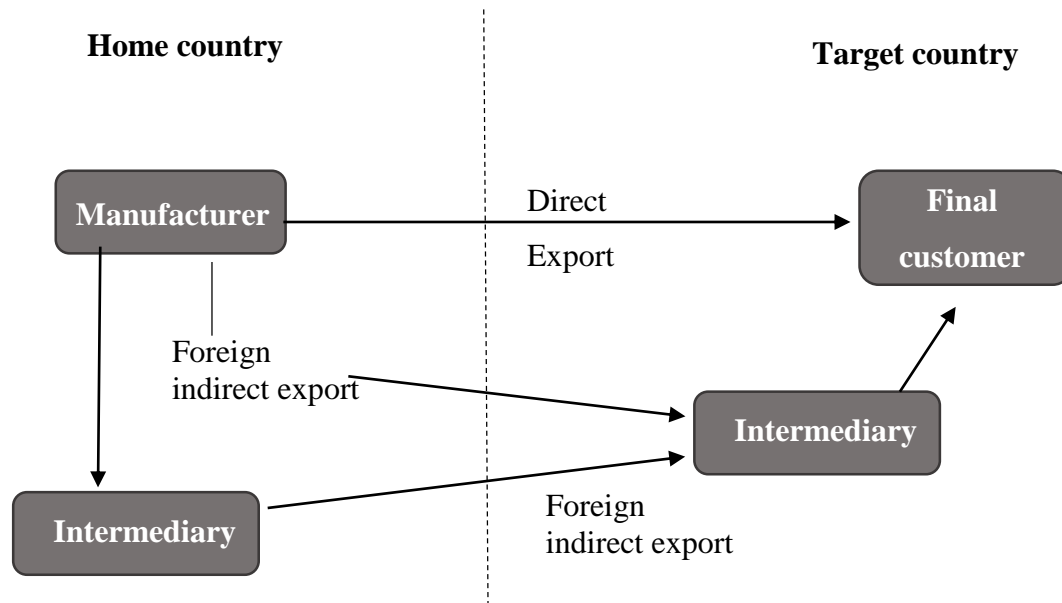


Figure 7: Export operations

(Adapted from Welch et al. 2007)

Indirect exporting is that method in which the exporter uses domestic-based intermediaries to market his products (Welch et al. 2007: 251). According to a study by Luostarinen et al. (2004) on Finnish industrial SMEs, 35.3% of these companies used indirect exporting through domestic-based intermediaries.

Because indirect exporting is slightly more complex and it includes 3rd parties, there are several types of indirect exporting that exporters can choose from; *Export Trading Companies* support the exporter throughout the whole exporting process. These type of intermediaries are very attractive with new-comers and companies with not much experience exporting. *Export Management Companies* are similar to export trading companies, however, they do not work with export credit risks and they only work with one type of product, not competing ones. (Foley 1999.) *Export Merchants* are importers who buy products straight from the exporter for later re-selling it under their own brand. *Confirming Houses* are firms in the exporter's country that act like agents as well as a

guarantor for an importer as they pay the bill on behalf of the importer, eliminating then the credit risk. Lastly there are the *non-conforming Purchasing Agents*; these companies are similar to confirming houses, however, that they do not pay the exporter directly; the importer and the exporter deal with the payments directly. (Salomon 2006.)

Direct exporting is the simplest mode of export in which the exporter ships his products from the home country to the foreign country with no intermediaries involved, meaning that the exporter deals directly with the foreign customer (Cullen et al. 2011; Welch et al. 2007: 264; Root 1994:75-78).

Because this method is simple and no 3rd parties are involved, there are not many types of direct exporting. *Sales representatives* are representing the foreign suppliers or manufacturers in their local markets and get paid based on a commission from the sales. They help the manufacturer with services about customs formalities, legal issues, advertising, etc. Then there are the *Importing distributors*; this type of distributors purchase the product from the exporter and then resell it in their local markets to retailers or wholesalers. (Reynolds 2003.)

2.3.2 Contractual modes

Contractual modes include, for instance, franchising, licensing, management contracts, subcontracting, project operations and strategic alliances. The main difference between contractual agreements and exporting is the type of services transferred; in contractual agreements not only goods are transferred but also the company's know-how. (Root 1994: 26; Pan and Tse 2000) Below, each contractual method will be explained.

Franchising is a very common entry strategy for those who start a business either in their home country or in a host country, especially if they are planning to operate in a very competitive market (Welch et al. 2007: 51). A franchise is a type of business licence that the franchisee acquires in order to have access to the franchisor's intellectual property, processes and trademarks (Welch et al. 2007: 52). This is done so that the franchisee can sell a product or provide a service under the same business name as the franchisor. In

exchange for the license the franchisee has to pay to the franchisor an initial start-up sum as well as annual royalties on the products sold (Michael 2003; Root 1994:134).

The franchisee can choose to either get only the trade name of the company, in which case they are allowed to operate under the same trademark but they do not receive the whole business system from the franchisor. They can acquire the business format franchising, where the franchisor provides the franchisee with all the necessary knowledge as well as marketing strategies, manuals, quality control etc. (Welch et al. 2007: 55.)

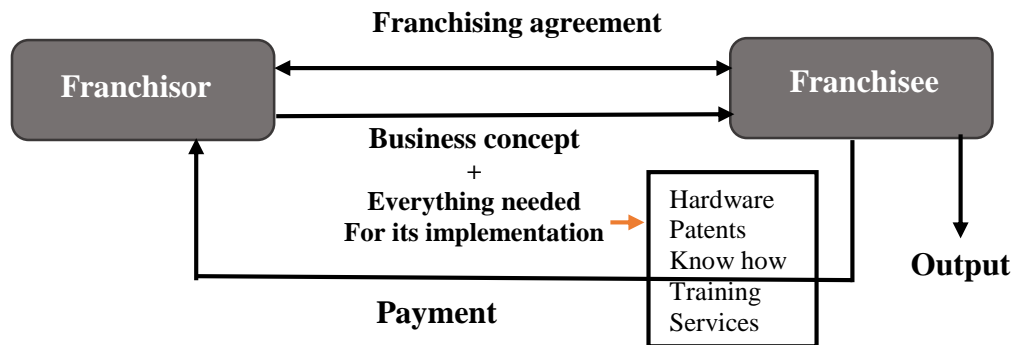


Figure 8: Franchising business format

(Adapted from Luostarinen & Welch 1990: 75)

The business sectors where franchising is usually used are the retailing sector, the service sector and the manufacturing sector. There are four different types of franchising: first there is *direct franchising*, in which the franchisor sets up individual franchisees in the target country the same way as in their home country. Another way is to use *master franchising*, here the franchisor does an agreement with a master franchisee in the target country who will establish, develop and manage the franchising operations. It is also possible for companies to *franchise through a foreign venture*; this happens when the franchisor forms a joint venture in the target country and grants them the right to establish, develop and manage franchising operations. Last but not least, a company can also choose to *franchise through a foreign subsidiary*; in this case, the franchisor forms a wholly owned subsidiary in the target country and through that it establishes, develops and manages franchising operations. (Welch et al. 2007: 68-70; Elango and Fried 1997.)

A *licensing* agreement can be understood as that industrial contractual arrangement whereby a licensor grants the rights to use its proprietary knowledge, intellectual property, to another firm, the licensee, for a specified period of time, and in return the licensor receives an agreed upon remuneration, royalty, from the licensee (Welch et al. 2007: 94-98). Other authors define licensing as an arrangement in which companies transfer the right to use their industrial property – patents, know-how, and trademarks-, to a foreign entity for an agreed period of time in exchange for royalties or some form of agreed compensation (Root 1994: 27.).

There are several ways to conduct payments when having a licensing agreement; one can do cash payments or non-cash payment methods. When choosing to do a cash payment the licensee has several options; a lump sum payment is the total payment for the whole license duration, this once can be a one-time payment or it can be fractioned. The Licensee can also conduct a royalty payment by doing overtime payments to the licensor that are based on the production of the licensed products as well as the sales of these products. This type of payment via royalties is generally the most commonly used. Lastly, another type of cash payment is the combination of the two above; a down payment plus royalties. The licensee would pay part of the payment at the time when the agreement is done and the rest is paid overtime via royalties. (Welch et al. 2007: 129.)

The licensing package can include different types of intellectual property depending on the company's interests. Licenses based on technical agreements generally exchange patents or technical know-how and may contain other supportive components like trademarks, copyright, designs, etc. Licenses with marketing interests tend to share marketing know-how and trademarks. There are several advantages for both the licensor and licensee to have a broader licensing package. For the licensor, by offering a bigger license package they are broadening their possibilities of income generation and it makes the package more readily marketable. Furthermore, it strengthens intellectual property against infringement. For the licensee, a broader package assists them with the implementation of the technology and the marketing of the end product. (Welch et al. 2007: 97-128; Root 1994:108-111.)

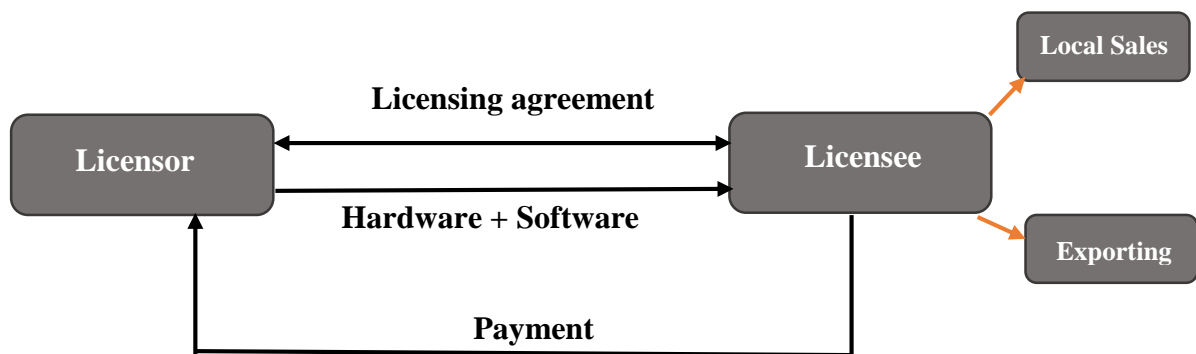


Figure 9: Licensing business format

(Adapted from Luostarinen & Welch 1990: 75)

As in every operation method, there are different types of licensing agreements and the ones below are categorized based on the amount of rights the licensee has over the intellectual property. First and foremost there is the *exclusive license*; in this type of license only the licensee has the right to use the intellectual property, therefore, the licensor is excluded from continuing to use the IP for the whole duration of the contract. Secondly, one can use a *sole license*, in which the licensor agrees with the licensee not to grant any other licenses, however, they retain the right to use IP at the same time. Another form of licensing is a *non-exclusive license*, where the licensor can grant any number of licenses, as it is not an exclusive contract. Furthermore, the licensor retains the right to use IP. The last form of licensing is granting *sub-licenses*; a sub-license is that one granted by the licensee to a third party under the authority of the license originally granted by the licensor to the licensee. (Welch et al. 2007: 109-113; Root 1994: 123-133.)

A *management contract* is an arrangement under which operational control of an enterprise -full or phase of enterprise, existing or a new unit- is vested by contract in a separate enterprise which performs the necessary managerial functions by sending its own management team and without undertaking any type of direct investment (Pugh 1961; Root 1994: 139). The contractee pays salaries and fringe benefits to the contractor's personnel assigned for managerial functions as well as a management fee to the contractor for a fixed period as written in the contract. The ultimate responsibility and power, risks and rewards of the operation lie with the owner. (Welch et al. 2007: 142-145.)

An international management contract would give, for instance, a western company, the right to manage the operations of a company in a foreign market. However, this control or management right would be limited to the on-going operations. (Root 1994; 139-140.) Management contracts are seen in many different industries; the tourism and hotel industry, the agriculture and agro-industries, public utilities and the service industry for instance airport services, and the production industry (Welch et al. 2007: 139-141).

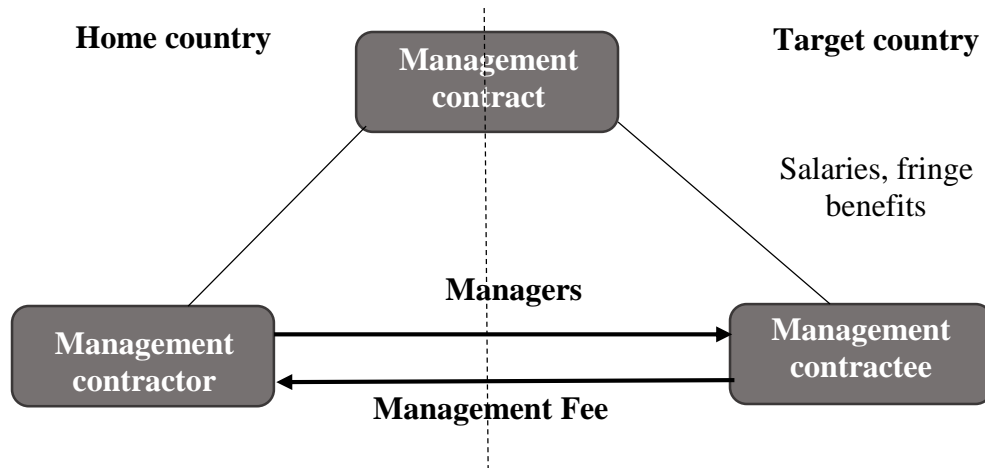


Figure 10: Management contracts business format

(Adapted from Booke 1985a)

International Subcontracting and contract manufacturing are a contractual arrangement in which a firm -an industrial firm or a trading firm- contracts a target country industrial firm –contractee- to produce a certain product or execute certain production phases. When the outcome is a complete product it is referred to as contract manufacturing and when it is only part of a total product it is referred to as subcontracting. In both cases, sales and marketing for the finished product/resultant is not undertaken by the contractee but by the contractor. (Sharpston 1975.) This business operation mode has been developed primarily as a vehicle to make full use of the advantages offered by low-cost/wage producers (Michalet 1980). In subcontracting, part of the product is manufactured by the foreign contractee and is included in the production process of the contractor. In contract manufacturing, the final product is manufactured by the foreign contractee (Welch et al. 2007: 162-167). There are many drivers of international subcontracting; for instance, the cost differences. Differences in labor costs within countries has stimulated companies to

get involved in international subcontracting. Costs-saving of about 20-40% are commonly reported by those companies participating in this practice (UNCTAD 2004).

These differences in labor costs are particularly significant and remain an important factor of international subcontracting (Navaretti et al. 2001). Footloose subcontractors are another driver for the use of this method. The readiness of contractors to move to new locations when former places are subjected to labor costs increase is of key importance for these costs differences. This was especially apparent in Korea and Taiwan which resulted in an increased amount of investors from both countries into Indonesia. (Munthe and Hukom 1993.) Another reason for subcontracting is Free Trade Zones; the main goal of countries crating FTZs has been to attract foreign direct investments, create employment and encourage technology transfer and skill development (Welch et al. 2007: 177-178). Lastly, the reduced transport and communication costs have been a leading reason for subcontracting, as high transport costs are the reason why many products are still subjected to limited international subcontracting (Edwards 2004).

Project operations can be defined as those activities involved in the design and construction of different plants and facilities: such as Buildings, airports, factories, industrial plants, mining developments, defense establishments, etc. (Welch et al. 2007: 200). Cova et al. (2002) define project operations as a “complex transaction covering a package of products, services and work, specifically designed to create capital assets that produce benefits for a buyer over an extended period of time”. There are different forms of contribution to a project and project contributors can take different supply positions concerning the whole project. Partial project are those in which the project operators contribute only some part of the goods and services, and/or know-how, needed to assemble the total package, responsibility and control for the coordination and integration of total project is held by the buyer. (Welch et al. 2007: 202-204.)

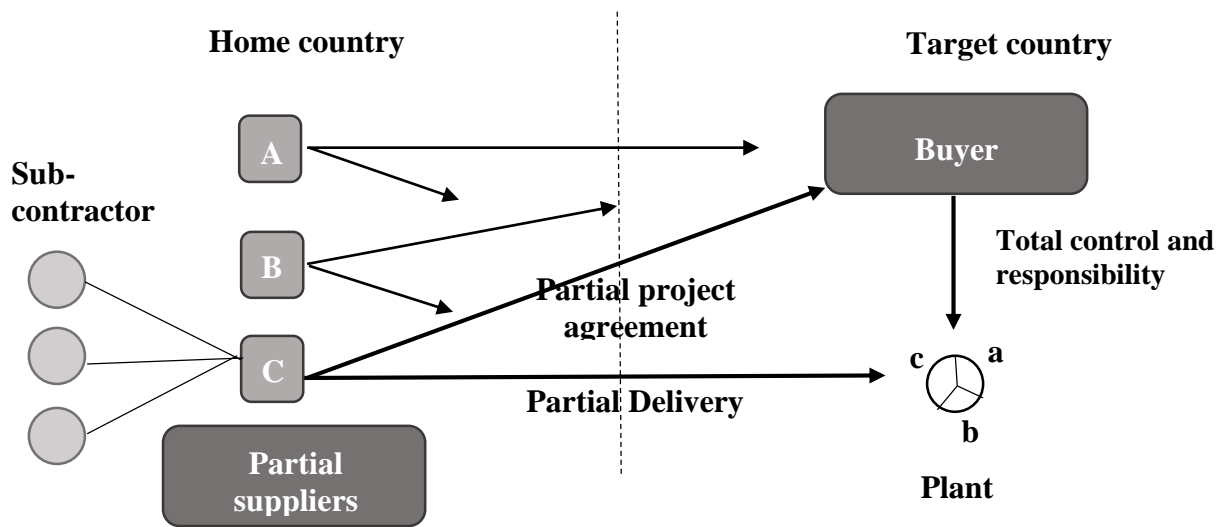


Figure 11: Partial Projects

(Adapted from Luostarinen & Welch 1990)

In turnkey projects one party (i.e. principal contractor) has the total responsibility for setting up a plant and putting it into operation (i.e. complete project delivery); the buyer has control (Welch et al. 2007: 205). Turnkey plus projects are those that deliver a complete project combined with other activities such as: pre-turnkey activities (feasibility study), during-turnkey activities (finding a financier, own investment, training) and after-turnkey activities (short-term, medium-term, and long-term support) (Welch et al. 2007: 205-208).

A *strategic alliance* is when two or more companies enter into a collaborative arrangement in which they agree to share their resources so that in result they can gain competitiveness and that the same time they can maintain their own individuality. (Gulati et al. 2000) They are voluntary cooperative inter-firm agreements aimed at achieving competitive advantage for the partners. (Das & Teng 2000: 33)

There are several ways to classify strategic alliances; by location, equity level, position in the value chain, functional area, scope, duration and number of partners. This project will set its focus on analyzing the functional area strategic alliance. A functional area is each possible area of business a company has to invest certain resources in. (Welch et al. 2007: 277-287.) Luostarinen et al. (1990) described six types of functional strategic

alliances and these will be described below. In a buying alliance, two companies join forces when buying materials and supplies so that in, a way, they can lower their costs. An example of a buying alliance would be the grocery sector in Europe. (Luostarinen et al. 1990.) These alliances can be found in retail for instance (Dawson and Mukoyama 2006).

Next there are research and development alliances; these types of alliances are those in which two companies, while keeping their individuality, join resources and facilities so that they can benefit from each other in developing a better and more competitive R&D function. An example of an R&D alliance could be found in the pharmaceutical industry in the following example. (Luostarinen et. al 1990) Pharmaceutical companies are a good example of R&D alliances (Morphosys 2015). The design alliances are those where two companies do joint designing so that they can create better competitive advantage for themselves. A major example of a design alliance can be found in what Australia did when in need for design innovation in several fields of the country. (Luostarinen et al. 1990.)

A production alliance is that one in which two companies have a joint production facility or production plant. This can happen either because both companies create similar products, which helps the production to be standardized and to share costs, or because in one same plant the two companies can fit their own production line and share location rental expenses. An example from production alliance can be found in the world of electronics for instance. (Luostarinen et al. 1990; Sony 2011.) A distribution alliance is that one where two companies enjoy a joint selling or a joint distribution which helps them reduce costs and to be more efficient. When it comes to distribution alliances, we can find an example in Mattel and Bandai. (Luostarinen et al. 1990; Ashdown 1999.)

Finally, a marketing alliance is that one in which two companies have joint marketing or joint promotion. A good example of a marketing alliance (among other types of alliances this company has) is the case of Eli Lilly, a pharmaceutical giant. (Luostarinen et al. 1990; Czaja 2006; Welch et al. 2007: 284-285)

2.3.3 Foreign Direct Investment modes

A *foreign direct investment* is an investment greater than 10% in an already existing company or in a company to be established abroad, in which the investor is participating in the management and control on the bases of the investment made (Luostarinen & Welch 1990: 156).

There are different reasons for pursuing and FDI, e.g. resource seeking, market seeking, efficiency seeking and strategic asset seeking. However, by doing so, the company is exposing itself to a greater resource commitment as well as to higher risks and to being more inflexible to changes and challenging situations. (Welch et al. 2007: 320-321.) There are many methods or FDI types, however the report will be focusing on the joint venture and the subsidiary methods.

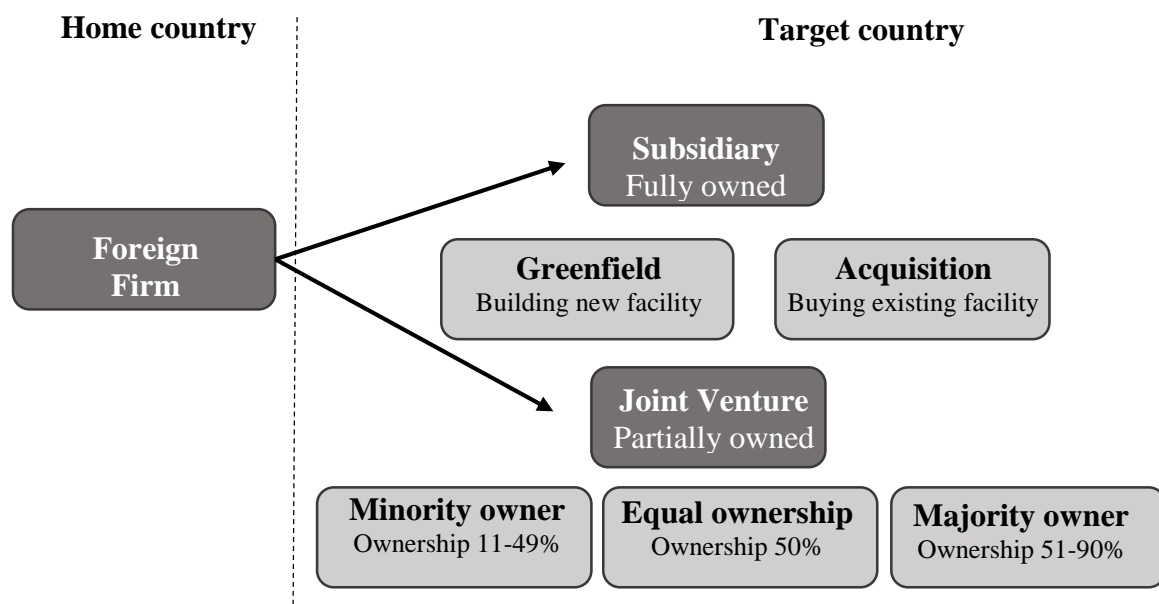


Figure 12: Foreign Direct Investments

(Adapted from Luostarinen & Welch 1990)

A *joint venture* occurs when two or more firms bring assets to an independent legal entity -*Greenfield joint venture*- (Chang & Rosenzweig 2001) and are paid for some or all of their contribution from the profits earned by the entity, or when a firm acquires partial ownership of another firm - *acquisition joint venture*- (Root 1994:165-168). A joint

venture is considered international when the nationality of one or more parents of joint venture is other than the country where the joint venture is happening. (Brouthers & Hennart 2007: 398; Root 1994: 171.) There are three types of joint ventures; a majority joint venture in which the foreign firm owns between a 51% and a 90% of the company, an equal joint venture in which all partners have equal ownership and, a minority joint venture in which the foreign firm owns between an 11% and a 49% of the company (Pan and Tse 2000; Welch et al. 2007).

A *subsidiary* is fully owned by the company no matter what country this one is in. There are two types of subsidiaries: the Greenfield subsidiary - where the company builds a totally new facility; and the acquisition subsidiary - where the company buys an existing facility. (Luostarinen & Welch 1990: 158.) While a company may decide to establish a Greenfield or an acquisition subsidiary, there are several ways and motives to do so. Below are the different reasons why a company would invest and move operations abroad:

One of the reasons is to have a *Sales promotion unit* in the target market; this is in order to make their brand known in there as the target market's legislations might not allow sales subsidiaries. It is a way to back up the sales efforts by local wholesalers and retailers. Another reason for companies to choose a subsidiary is to create a *sales unit* in the target market so that they can control the sales, improve sales performance or provide installation and service of high-tech products. Another reason for that would be for a product that requires adaptation, to gain market knowledge and future sales potential or if the distribution requires careful handling. Another very common reason is to create a *purchasing unit* in order to minimize input costs or because there is a favorable position for gaining inputs in times of shortage. (Luostarinen & Welch 1990.)

Companies also choose subsidiaries in order to follow up on technological developments, as it may be difficult to attract foreign experts due to the lack of home country incentives. Therefore, it is better to have an *R&D unit* in the main competitors' markets. A *warehouse unit* is also very useful to companies who need access to quick supply or face an unwillingness of the agent to hold sufficient stock. *Technology transfer or a seller unit*

are also a big reason why subsidiaries are chosen; this is in order to transfer a technological package, to get into a block of sellers, or to avoid showing the country of origin. When there is a restrictive financial policy at home, when there are high interest rates on loans or when large financing is required for a fast internationalization a company might choose to export their *financing unit* elsewhere. (Luostarinen & Welch 1990.)

Another important unit for a global company is an *assembling unit*; companies can save on transportation costs, they can avoid damaged goods if the products are fragile, they might save on tariffs and production costs and there might be cheaper parts available in the target market. Last but not least, companies create *manufacturing units* in the target markets if, for example, if there are protective measures set by the target country, like tariffs and import taxes, or on the other hand, incentives of the target country, like tax exemptions. This type of subsidiary is also very profitable if there is multilateral free trade and common market treaties, for instance the EFTA, or if there is a competitive situation in both the domestic and the target country markets, i.e. other firms producing in low cost production places. It is also used to reduce risks while operating on multiple locations, when changes in demand in the target country, when there is the need of product adaptation, to eliminate costs caused by distance or target country location advantages. (Luostarinen & Welch 1990.)

2.3.4 Comparison of operation methods

Every operation mode serves a very specific purpose for companies to enter foreign countries in different ways. These modes can be compared based on 6 markers shown on Table 1 below. A company can choose an operation method based on the level of resource commitment they are looking for, the strategic risk this one has, the risk of opportunism they are exposed to, how flexible the operation method lets them be, how fast they can enter the new market as well as the possibility of feedback from their business in that foreign market and the level of revenues. (Maignan and Lukas 1997.) The table below shows, based on these 6 markers, plus and minus signs explaining the more or less involvements of each operation method with each marker.

Table 1: Comparison of Foreign Operation Methods.

(Maignan and Lukas 1997)

	Resource commitment	Risk	opportunism	flexibility	Speed of entry	Feedback possibility and revenue
Export	-	-	+	+	+	-
Franchising	-	-	+	+	+	-
Licencing	-	-	+	+	+	-
Management contracts	-	-	+	+	+	+
Subcontracting	-	-	+	+	+	+
Project operations	-	+	+	-	+	+
Strategic alliances	-	-	+	+	+	+
Joint Venture	+	+	-	-	-	+
Subsidiary	+	+	-	-	-	+

Indirect exporting is the fastest foreign entry method and the exporter can concentrate most of their resources on production. There is little to no financial commitment as the intermediaries or the customers usually cover most expenses, and there is a very low risk when using this method. (Peng 2009.) On the other hand, this method leaves the exporter with almost no control on the distribution of their products, the sales or the type of marketing applied to them. Furthermore, if the exporter chooses the wrong distributor, this will have a very negative effect on the market they entry and the profits they receive. Also, this method translates into lower sales than direct exporting. (Evans 2005.)

A very good reason for using direct export is because the exporter has total control over the choice of foreign market and the representative companies. Furthermore, because the exporter is in direct contact with the foreign customer, they can get very good feedback from the target market and establish relationships with the customers. Because there are no third parties involved, the profits for the exporter are greater than in indirect exporting

and they also get better protection of their products. (Yoshino & Rangan 1995.) On the other hand, the costs and risks placed on this type of exporting method are greater, as it requires a bigger time investment, more resources and personnel. Furthermore, the exporter needs more information about the foreign country, therefore, it takes longer time to reach the desired market than in other methods. (Foley 1999.)

Franchising implies a low cost and a rapid expansion as well as a lower risk, however, by doing so, the company is submitted to a low level of control over their franchisees as well as a lower profit if compared with an own establishment. The franchisor can gain very valuable local knowledge and domestic experience through franchising as well as a rapid market penetration. The franchisee gains a lot of experience through the company's training and they gain recognition by operating under a strong brand. The franchisee gets continuous financial support and technology transfer which enhances their business performance. However, franchising contains many risks, one of them being the lack of complete control that the franchisor has over their businesses. Many cases of failure between the franchisor and franchisee is due to the cultural differences between them or not delivering what has been promised. Furthermore, this operation method is quite costly for the franchisor as they need to train the franchisee's personnel and provide new and updated technology to them. Moreover, government regulations and legal restrictions have proven challenging to overcome for franchisors. (Welch et al. 2007: 55-58; Doehrmann 2005.)

There are many arguments to go for or against licensing, even if looked from both points of view, the licensor's and the licensee's. The licensor obtains many advantages through the granting of licenses; for instance, it is a way to avoid import barriers and investment restrictions. Licensing also has a very low political risk, a low resource requirement and low financial risk for the licensor. Moreover, the licensing agreement provides the licensor funds for domestic expansion and a rapid market entry into new markets. When entering into a licensing agreement, the licensee is obtaining technology already developed at a low risk. Furthermore, they have the chance to expand their business to a whole new product area and range with the new knowledge they acquire. (Welch et al. 2007: 109-110; Root 1994: 109-111.) On the other hand, such types of agreements also

bring many risks and sometimes problematic situations. The licensor has to be sure the chosen licensee is trustworthy as they may face opportunism from potential competitors. Furthermore, by providing their intellectual property to someone else, they face quality risks in which the quality of their products may be less than desirable, or payment risks in which the licensee refuses to pay what he should. The Licensee may face restrictions by the licensor and they may lose control over strategic decisions, preventing them from growing. They may also receive technology that is mature or less competitive, therefore, they might have to invest more money in technology than expected. (Welch et al. 2007: 111-113; Root 1994: 109-111.)

On the one hand, management contracts suppose a low financial resource requirement from the contractor as well as a good control over on-going operations. This type of operation mode offers a stable income to the contractor and it is a good link to other operation modes. Therefore it would be easy to merge management contract with exporting or licensing. (Brooke 1985b.) In this deal, the contractee gains expertise without having strings attached to the foreign equity. It is a quick route for them to conduct viable business. One of the biggest disadvantages of this operation method for the contractor would be that they are training future competitors, and while doing so, they might face training problems as the existing personnel might have been trained differently. Furthermore, they might encounter personnel demands; they might need to develop the relationship with the employees and that takes time. Furthermore, they might face differences with the host government which might demand adapting. On the other hand, the owner of the company is the one facing the most risks; the owners tends to have a high degree of dependence on the contractor and the management fee must be paid regardless of the profitability. (Brooke 1985a; Welch et al. 2007: 143-144.)

Subcontracting and contract manufacturing provides the contractor with high strategic flexibility, and it strengthens their competitive ability. This method provides the contractor with a wider product range and it has a low financial and management resource requirement (Birou and Fawcett 1993: 34). It is a faster way of penetrating foreign markets as well as having control over marketing activities. The contractee has the possibility to improve quality and by internationalizing they can encounter new business

opportunities (Min and Galle 1991: 14). However, this method also has some risks that both the contractor and contractee face. The contractor faces the possibility that there is a lack of availability of suitable manufacturers. Furthermore, they might be working with a future competitor and the quality control and consistency of supply is harder to deliver. The contractee faces a high dependence on the contractor's performance when it comes to succeeding or failing, and the possibility of losing the core strengths of the product (Hendry 1995: 195-197). Furthermore, they need to do some high initial investments on the facilities. (Welch et al. 2007: 179, 186-192.)

Project operations contain four characteristics that none other forms of international business operations contain; discontinuity, uniqueness, complexity and, risk and uncertainty (Cova et al. 2002; Branchoni and Loch 2004). The projects have an established start and finish, regardless if extensions of the project may occur. Furthermore, projects involve a unique package of contributions that are specific to each buyer. Sometimes, the uniqueness of these packages is what makes the projects so complex, as the level of customization can be quite high depending on the customer's expectations and requirements; furthermore, the teams are becoming more and more culturally diverse (Chevrier 2003; Makilouko 2004). Last but not least, because these projects are unique and complex and their size and costs are considerably large, these generate high levels of risks and uncertainty for all the parties involved. (Cova et al. 2002; Welch et al. 2007: 200-202.)

The main reason for entering into a functional area strategic alliance is the ease of market entry. This is because the alliance is local in the country of entry and it requires much less effort to plan an entry strategy. Another reason for entering into this type of alliance is the need to cut costs in one or another area of the business and minimize the risks. Furthermore, by entering into a specific functional area alliance both companies would gain knowledge and expertise from each other which would provide higher core competences and more competitiveness in the market. (Loustarinen 1990.) Knowledge and resources can become limited to some in the home country, therefore this also becomes a strong motive for companies to want to enter into a strategic alliance. Strategic

alliances are also a way for companies to exploit economies of scale as globalization has lowered the barriers for foreign investment among other things. (Mellahi et al. 2005.)

According to Child et al. (2005) there are six internal motives for strategic alliances to happen; the need for resources, the eagerness to learn more, to limit the risk possibilities, to accelerate the speed into the market, to minimize costs and if a company currently has a poor performance. Strengths of strategic alliances could be compared to those initial motives a company would use to enter into these alliances; for example, a strength would be that the risk in these alliances is shared, minimizing the damage for both companies if the deal was to end badly. It is also a great chance because the costs are shared and the companies can take advantage of the economies of scale. A strategic alliance also means that it provides quick access to resources and skills and it can be used as a learning opportunity for future business. (Ferencikova et al. 1999.)

Some of the reasons to pursue a joint venture are for example to diminish possible risks, or save capital, or to gain local knowledge through it. On the other hand, firm's objectives might differ, the profit of the company gets smaller and the different firms might collide when implementing working styles. (Luostarinen & Welch 1990: 160.) One might prefer an acquisition subsidiary due to its rapidity, its already functioning personnel, its already existing distribution channels or loyal customers. However, the company might encounter difficulties when it comes to adaptation and integration in the new country. On the other hand, a company going for a Greenfield subsidiary might do so because of the lack of available firms in that country, because of having a high product technology, not wanting the resources from an existing firm or because the location is close to some production factors. Needless to say, this last strategy is extremely time-consuming and more financially demanding. (Welch et al. 2007: 325, 331-349.)

In the case of globalizing internationals, their internationalization is an extended process (see Table 2) in which they generally experience an international phase closer to home with lower involvement FOM like exporting, licensing or franchising. Later on, they experience a transition phase in which they aim towards globalization via management contracts, project operations and/or strategic alliances. The last phase is the global phase,

in which a globalizing international company feels the confidence to invest a higher risk in a certain country either by creating joint ventures, subsidiaries or wholly owned businesses.

Table 2: Revised classification of Foreign Operation Methods.

INTERNATIONAL PHASE	TRANSITION PHASE	GLOBAL PHASE
<ul style="list-style-type: none"> • Exporting • Franchising • Licensing 	<ul style="list-style-type: none"> • Management contracts • Project operations • Strategic alliances • Some subsidiary operations (i.e Sales) 	<ul style="list-style-type: none"> • Joint Venture <ul style="list-style-type: none"> ○ Greenfield ○ Acquisition • Subsidiaries <ul style="list-style-type: none"> ○ Greenfield ○ Acquisition • Wholly owned

2.3.5 Mode Combination and Mode Switching

Mode switching, as the word says, is the change of a foreign operation mode; either by replacing an existing mode with another mode or changing within an existing foreign operation mode. This is a very common practice for companies that are looking for a new strategy that supports a deeper market penetration. On the other hand, mode switching can also be used to recover from a problematic situation in the foreign market, or to prevent such situation. Mode switching is often seen as a way of internationalization, given that companies might go from exporting to a foreign market to an in-house operation such as an FDI. (Pedersen, Petersen and Benito 2002; Welch et al. 2007: 418-431.)

As mentioned above, mode switching can be done in different ways and for different reasons; below one can see how companies can take advantage of these mode switching techniques. *Inter-mode switching* is used when companies replace an existing Foreign Operation Method with another. There are two ways to do so; in form of internationalization and in form of externalization. *Inter-mode switching in form of internationalization* is used when companies switch from serving the foreign market through an outside operator, like a distributor, a licensee or a franchisee, to an in-house

operation, most often in the form of foreign direct investment. For instance, changing from an independent local distributor to an own sales subsidiary. *Inter-mode switching in form of externalization* is used to go from serving the foreign market through an in-house operation, most often in the form of foreign direct investment, to an outside operator, like a franchisee or a distributor. For instance, going from an own sales subsidiary to an independent local distributor. *Intra-mode switching* is used by companies in order to change the operation method within the already existing Foreign Operation Method. For instance, the firm would keep using the same operation method but would change their local operator or licensee to a new one. (Anderson and Narus 1990; Shamdasani and Sheth 1995; Coughlan et al. 2006; Welch et al. 2007: 364-372.)

There are several reasons why mode switching should be used or at least considered by companies planning to enter or already in foreign markets. This one can be used as a correction of managerial misjudgments (Welch et al. 2007: 365), as it is quite often and well-known that managers tend to rush into mode decisions that create negative scenarios later on (Calof 1993). It can also happen that managers realize, once the operation method is already in use, that the costs of this one are unexpectedly high and not sustainable for the company (Benito and Welch 1997). Another reason for companies to use mode switching is to adapt to new circumstances; for instance, the company may decide to change their target market or change their local operator (Welch et al. 2007). Dissatisfaction with the operators at the foreign market is a very common reason and important triggering (Calof and Beamish 1995) for intra-mode shifts and therefore instead of changing the whole mode, it becomes easier to just change the operator instead (Anderson and Narus 1990; Shamdasani and Sheth 1995; Coughlan et al. 2006).

However, there are several barriers to mode switching and these may affect negatively on the company's mode switching actions. These barriers are referring to the costs, revenue losses, and perceived hurdles that may occur when taking down an existing operator, for instance either dropping the operator or taking down the operator with the intentions to acquire the local operator, and setting up a new foreign operation mode. The loss of reputation of a firm may result in changing costs and shifting revenues, and

as a result have a negative effect on the company's foreign operations (Benito et al. 1999; Weiss and Anderson 1992).

Some of the costs related to setting up a new operation mode or taking down this one may be caused by lawsuit expenses, foreign operation learning costs, training or termination compensation. When it comes to revenue losses, the taking down of an operation mode might cause the loss of the company's reputation in that certain market and the loss of customers; consequently losing revenue. Last but not least, there are also perceived barriers that a company must overcome; for instance, when taking down an operation mode there are always personal bonds to individuals working for the partner company and there is a high risk for careers setbacks. (Benito et al. 1999.)

Mode combination comes as an alternative to mode switching; instead of changing one method for another, a company may add one or more foreign operation method to an already existing one (Welch et al. 2007: 393).

A firm may decide to combine modes for many reasons; however, there are five reasons that stand out. A company might use mode combination when they have *unrelated business units*, meaning that they have different business across different industries or product markets and is looking to have diversified products in target country (Welch et al. 2007: 396; Porter 1985). Another reason would be if they are *serving different customer segments*; a firm can combine modes in order to serve different customer segments, for instance, large vs small customers, customers in different geographical regions, infrequent vs repeating customers in the target country, etc. This is because some customers are important and require a specific service to deliver to their country. (Coughlan et al. 2006.)

Another reason for mode combination is when the company is seeking *value activity specialization*; the main goal of this approach is to increase efficiency without any specific customer segmentation but by creating a division of labor based on the company's value activities (Valla 1986; Welch et al. 2007: 398-399). This method can also be used in order to *bolster commitment and control*. The reason why a company seeks

to increase the level of commitment and control is so that they can gain more control over agents to solve agency problems. Lastly, a company may use mode combination as a way for *benchmarking local operators*; in this case, the company decides to use different or multiple operation modes that may compete with each other in the foreign market. Meaning that these operation modes may target the same customer segment and the same business activities, however, they have a different ownership. In other words, it is used to set a benchmark for local operators by setting own operations in target country. (Welch et al. 2007:399-404.) However, it has been studied that separating the ownership of the company from the management might cause problems for such company (Berle and Means 1932; Jensen and Meckling 1976; Grossman and Hart 1986).

2.4 Target market and Influencing factors

This section aims to describe all those factors influencing market selection as well as market entry mode selection. Furthermore, both the opportunities in emerging markets as well as a detailed BRIC country report will be exposed. It highly depends on each company what triggers them to seek a foreign market and what method to use, however, Figure 18 below shows one possible process of choosing a market and an entry mode. It shows what stages a company goes through before making the final decisions as well as what kind of research they need to conduct.

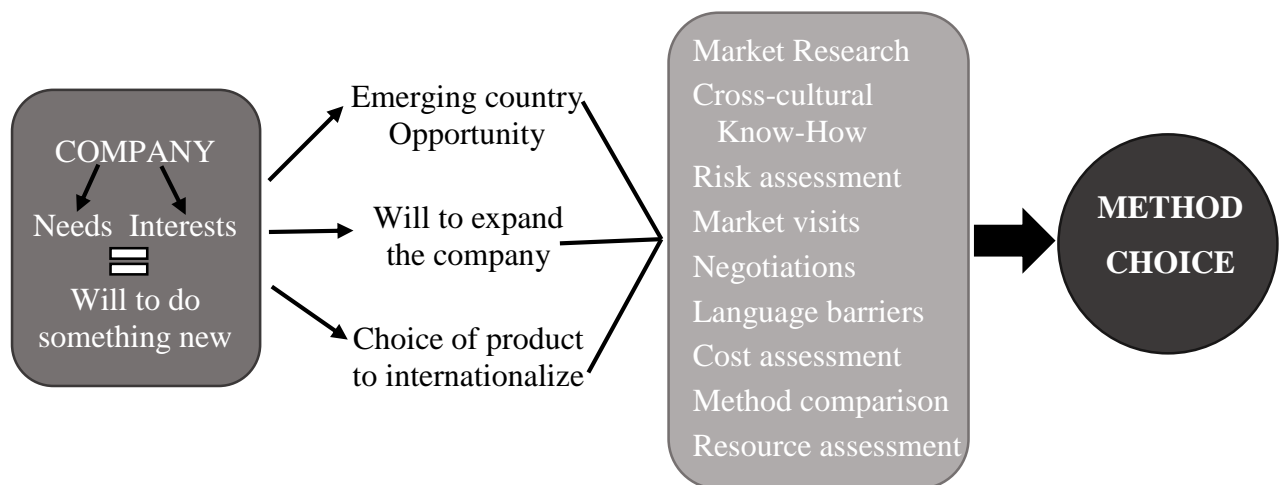


Figure 13: Foreign Operation Method Choice Process

(Modified from Welch et al. 2007: 442)

2.4.1 Factors influencing global market selection and entry mode selection

Internal influencing factors are those that define the company and factors which the firm could have an effect on (Koch 2001). There are several factors that have a major effect on a company's market selection process; *the degree of internationalization* of the company (Cavusgil 1980; Johanson 1997), their *strategic orientation* (Hamel and Prahalad 1994) *and objectives*, as well as their *foreign market selection experience* and *international competitiveness* capabilities (Koch 2001) will have a great effect on the direction they decide to take.

When it comes to market entry mode selection, traditionally, it has been believed that both *firm size and firm age* are directly related to a firm's level of internationalization (Andersson, Gabrielsson and Wictor 2004). It was Johanson and Vahlne (1977) who suggested that in order for a firm to move into international markets, this one needs to be a considerable size before that takes place. This is because small firms are known to have a restrain on their available resources (Stinchcombe 1965; Storey 1994); furthermore, many researchers sustain that large firms, like globalizing internationals generally are, are more likely to penetrate international markets with their business (Bonaccorsi 1992; Calof 1993). The larger the firm is, the more resources this one has available to invest into their internationalization process (Andersson et al. 2004). Smaller companies generally have fewer resources and, consequently, fewer servicing options (Benito and Welch 1994). The amount of *resources* the company has and their level of commitment towards the foreign market dictates the method they can use. (Cavusgil et al. 2002)

Some researchers mention that in order for a firm to become widely internationalized, this one must have a high *technological level*. It has been found that high technology companies tend to be more global than low technology companies. (Crick and Jones 2000.) A key indicator of the internationalization of a firm is the *CEO and the top management* (Andersson 2000; Andersson 2002). Despite this topic not being widely studied (Westhead, Wright and Ucbasaran 2001), it has been found that the internationalization level of a firm is directly related to the level of international work experience of top management (Bloodgood, Sapienza and Almeida 1996). Another factor

that affects the managerial performance is their experience with market entry methods and, in what situation they have used these; all of these has a very big influence on the entry method chosen as well as on the previous the selection process (Paliwoda and Thomas 1998; Root 1994; Van Fleet 1991). Furthermore, the higher the *risks* those managers are willing to take, the more likely they are to choose a project that will turn out more profitable in the long-term (Johansson 1997; Kock 2001).

Sometimes, when provided new market information one has to try and understand it, as well as work on that information in a way that the company will benefit from it. In order for decisions to be in accordance with the company's needs, these require individuals and organizational minds to be in unison and in agreement as to what are the ultimate goals and needs. (Schewenk 1995.) It is believed that planning is one of the most important elements in order to grow (O'Gorman 2000); firms that make time for *market planning* are more likely to be involved in international activities (Aaby and Slater 1989; Ibeh 2000). Another internal factor affecting the method choice are *product factors* like how differentiated the product is and at what price the company can enter the market. The more differentiated the product is, the higher the price can be. (Cavusgil et al. 2002.)

External influencing factors are those that a company has little to no control over; market conditions, production facilities available or environmental factors are the main factors that make or break a company's path to internationalization. Management decisions have no influence over these but they have an influence on the operation entry mode chosen. (Cavusgil et al. 2002.) When it comes to market selection, there are several external factors that dictate the company's choice; first, one has to look at the *country market potential*, as this is one of the most common criterion used (Hodgson and Uytendhoeven 1962; Johansson 1997; Moyer 1968; Root 1994). Then the company must assess the *competitive significance of the market*; this is done by assessing the current performance and trying to forecast future changes (Elliott and Cameron 1994; Koch 2001). Perhaps, one of the most important actions to be taken is to research the anticipated *risks in the foreign markets* (Backhaus and Meyer 1986; De la Torre and Neckar 1990; Kobrin 1979). These business risks have been categorized by Czinkota and Ronkainen (1996) into three different types; "ownership risks – expropriation, confiscation and domestication –,

operating risks – exchange risks, over-investment and price control related risks – and transfer risks” (Koch 2001)

Furthermore, there are other factors that may influence the mode selection in these markets; *target market factors* include facts such as the market size of the target country, the sales potential this country has, the demand for the product wished to be marketed, the amount of competitors already established and known in the market as well as the risk entering that country may have. For instance, a small market favours entry modes such as exporting or licensing. On the other hand, joint ventures are more successful in a market with higher sales potential. (Cavusgil et al. 2002.) A certain industry setting or environment can have a great effect on the company’s strategy and direction (Miller and Friesen 1984). For instance, a fast-changing environment can have a great effect on a company’s performance and also inflict great pressure on this one due to, among many other reasons, competitors and technological progress (Zahra 1991; Zahra 1993; Zahra, Neubaum and Huse 1997). It is rather complicated to get reliable and unbiased information about the target market, as up-to-date information is considered sensitive and generally it can be quite costly to get (Koch 2001).

Furthermore, a company needs to take into account the *production factors* in the target market; production costs, the costs of raw materials and labour, as well as the level of economic infrastructure of the country, such as transportation, ports and communications, which are key issues for a company to consider. Local manufacturing, for instance, should not be considered in a country that has poor infrastructures and high production costs. (Cavusgil et al. 2002.)

Last but not least, a company needs to understand and research the target market’s *environmental factors*; these are the target country’s economy, the political situation, and the sociocultural scenery (Cavusgil et al. 2002). It is important to know what type of product you want to market and to choose the right market for it; it is very unlikely that a luxurious product will do well in a slow economy. Moreover, government barriers such as import regulations, protectionism, tariff barriers, governmental regulations, natural barriers and more can be considered of great importance, and they may difficult the entry

into the country (Cavusgil 1985; Johanson 1997; Van Wood and Goolsby 1987). The sociocultural situation of a country is also important to understand in order to take advantage of uprising demand trends. Last but not least, a deep market research of the target country is of utmost importance in order to avoid surprises; corruption, protectionism, market monopoly of competitors, etc., are things to study before investing into another market.

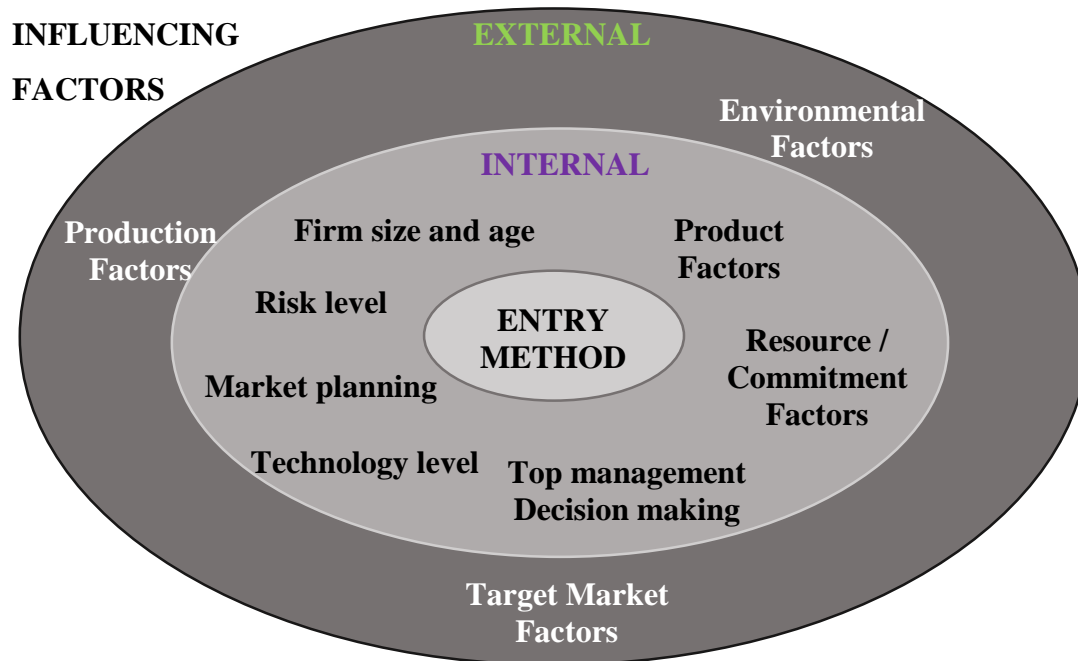


Figure 14: Entry mode influencing factors

(Koch 2001; Cavusgil et al. 2002)

2.4.2 The opportunities and risks of emerging markets

Cavusgil et al. (2002) stated that “*approximately 75% of the world’s population lives in emerging economies*”, today, over 80% of the world’s consumer population is believed to live in emerging markets (Innosight 2016); these are great grounds to direct business towards these countries. Emerging markets are known to offer a broad list of business opportunities to companies looking to expand their firm. The emerging market’s size, rates of growth, low costs – labour, raw materials, infrastructures, etc.-, and generally their operating conditions (Enderwick 2007: 11) make it a great starting point for globalizing internationals to expand their foreign operations at a low cost.

The first opportunity that emerging markets offer globalizing internationals is the *market* itself. Because most of them are large in size and with high growth rates, there has been both an increase on the investments and consumption. As a result, this fast growth increases the country's demands for commodities meaning that they invest on bettering the infrastructures as well as other equipment. (Enderwick 2007: 11-15.)

The second opportunity many companies seek after is the *low-cost production*. This is because emerging markets are a source of important resources at a low price – “human, natural and technological”- together with a low production cost. However, companies must also consider the costs of tariffs, shipping, import duties or currency changes, as what they might save on production they might have to pay on the above. (Enderwick 2007: 16-17.)

The third advantage that emerging markets offer are the wide range of *learning opportunities*, not only globalizing internationals but for any type of company. A company entering an emerging market has the chance to learn a new culture and a new way to do business; they learn to adapt their business to a new situation and learn new types of consumer behaviour. Furthermore, by expanding to a foreign market, a company gains a unique network of prospect partners and invaluable business relations. (Enderwick 2007: 17-22.)

It has been researched that *volatility* remains twice as high in emerging markets than in developed economies (IMF 2005), and while this has been reduced in the past years and it was believed to not have a significant impact on the economy (Enderwick 2007: 58-61; Harvey 1995), recent studies have suggested that this one has a big impact on growth (Martin and Rogers 2000; Ramey and Ramey 1995). Irregular output affects the country's consumption stability and patterns, and this consumption fluctuation can be experienced at a higher rate in emerging countries (Pallage and Robe 2003). Kose et al. (2004) suggested that there is a direct link between growth and volatility and the country's economic development. Managers should highly understand where the sources from this volatility come from so that they can forecast economy trends (Enderwick 2007: 58-61).

In the macro perspective, one must consider *country risks*; these refer to all those threats and conflicts a company might get exposed to by entering that country; political risks, originating from political instability, corruption, legal barriers, etc. and economical risks, related to economic volatility, growth rates fluctuation or exchange rates instability (Enderwick 2007: 61-62; Harvey 1995; Diamonte, Liew and Stevens 1996). Another aspect to take into consideration are *social risks*; these comprise ethnic and religious conflicts happening in the target emerging market (Enderwick 2007: 63). These conflicts have shown to be an increasing trend in emerging markets (Economist 2005).

Another big problem in emerging economies is the *informational risks*; it has proven challenging to gather trustworthy information that is high quality and updated. Furthermore, most of the times this information is not available in English but on the local languages. (Enderwick 2007: 63.) Globalizing internationals entering an emerging market will encounter that *corruption and opacity* is not an uncommon activity; The World Bank (1997) defined corruption as “the abuse of public office for private gain”, suggesting that most of the corruption originates or is found within governmental institutions (Enderwick 2007: 65). Corruption does not only cause a problem for companies entering a certain market but also for society as these activities become increasingly acceptable (Dearden 2003). Furthermore, the existence of corruption might diminish the respect and reliability placed over democratic institutions and processes (Doh et al. 2003). The biggest problem these countries are facing when it comes to corruption is that very few of them have the needed resources to investigate and eradicate these illicit activities (Palmier 2003).

2.4.3 BRIC emerging economies

For the purposes of this project, the focus will be set on the so-called BRIC countries; BRIC is an acronym standing for the four major emerging countries Brazil, Russia, India and China. (Statista 2015; O’Neill 2001.) Wilson and Purushothaman (2003) wrote that by 2035 China would surpass the US and become the largest economy in the world and, by 2039, if we combined the GDP of the BRIC economies this one would be greater than the one of the G7. Recent studies have shown that China can overtake the US’ GDP as soon as 2027 (O’Neill 2011).

The *Federative Republic of Brazil*, capital Brasilia, is the 6th largest country in the world and the largest among the Latin and South American countries (CIA 2015a). It borders with almost every South American country – not Chile, or Ecuador – and it is the only Portuguese-speaking country in the whole American continent. Its vast 8.5 million-square-kilometer territory gives home to over 204,2 million Brazilian citizens. (CIA 2015a; Geography 2006.) Brazil is currently South America's leading economic power and regional leader; one of the first that began to overcome the economic crisis. It is the world's 8th largest economy with a GDP of 2346 trillion US dollars (CIA 2014a; World Bank 2014). With a 16200 US dollars of GDP per capita, they are currently rated in the 100th position according to CIA (2014a) data. Brazil's main industries are the following; textiles, shoes, chemicals, cement, lumber, iron ore, tin, steel, aircraft, motor vehicles and parts, other machinery and equipment (CIA 2015a).

Dilma Rousseff became president in 2011 to continue applying the socio-economic policies in order to enhance economic growth, stabilize inflation and reduce poverty; since then, she and several of her ministers have been involved in a big corruption scandal (Goldstein 2016). Brazil is one of the founding members of the trade alliance Mercosur, which has made trade easier for all Latin American countries members as well as for the rest of the world (Roett 1999; Klom 2003). However, one of Brazil's biggest flaws is the high rate of violent crime; gang wars that disturb businesses, especially in Sao Paulo and Rio de Janeiro, make security a big issue in this country. (MarketLine 2015a.)

Brazil has a strong macroeconomic framework with a flexible currency and inflation targeting policies. Furthermore, they are currently experiencing a strong FDI inflow and these are expected to be a majority of the incoming investments into infrastructure and the energy sector (Ranjan and Agrawal 2011). Their inflation as of May 2015 was an 8.8%, well above the central bank's target of 4.5%; despite corrective measures were taken in 2015 it seems they have not yet been enough to contain these fluctuation in the inflation rates. Another downfall to Brazil's economy is their low productivity; this is due to the increase on the unit labour costs as well as the underinvestment (Bloom, Mahajan, McKenzie and Roberts 2010). Brazil has an extremely complicated taxation system as

well as an inefficient regulatory environment and a poor product market regulation making the country a non-competition-friendly market (Pessoa and Trezza 2015). (MarketLine 2015a.)

In Brazil's social landscape one must remark the improvement on urban living as well as the government's measures to eliminate hunger and poverty and the progress in the country's educational level. On the other hand, there are still many inequalities persisting within the country as well as child labour and many corruption cases (Geddes and Neto 1992; Fleischer 1996; Silva 1999; Goertzel 2005). (MarketLine 2015a.)

The *Russian Federation* is the largest country in the world land-wise with over 17000 sq km, the 10th largest in population with over 142 million people and the 7th largest economy with a GDP of 1861 trillion US dollars. Russia's main industries are mining, oil, gas, chemicals and metals, machinery building, defence industries, shipbuilding, among many other. (CIA 2014b; CIA 2015b)

Despite Russia has made efforts into improving their international integration in the past, nowadays they are facing complicated relations with the West and the EU due to their military moves in Ukraine in 2014 (Walker 2015). Russia has been removed from international credit markets in order to sanction them for their actions, regardless, its president Vladimir Putin continued to dismiss the international community (European Union Newsroom 2014). Russia accounts for one of the biggest gas reserves in the world as well as one of the biggest oil reserves; however, this high dependence on gas and oil has made their energy prices extremely volatile (Bentley 2002; Sadorsky 2001). Despite of the fact that Russia's poverty rates seem to be declining, 33, 5% in 1992 to an 11% in 2013, since the return of Putin to the presidency their civil society has been considered under threat. Restrictive laws, intimidation, imprisonment of activists, and government critics seen as enemies are only a few of the activities that have damaged the country's freedom (Evans, Henry and Sundstrom 2006). (MarketLine 2014.)

According to the World Bank Group (2015), Russia has made it easier for companies to start a business in the country and is now ranking 34th out of 189 countries. They have

done so by shortening the times that it would get to get permits and registrations; however, Russia's legal system is seen as weak and highly unpredictable. It has been said that their judiciary system is lacking impartiality and it is highly politically motivated. Corruption is highly present amongst the Russian police department as well as judges and court decisions. (MarketLine 2014.)

India is the 2nd largest country population-wise with over 1.2 billion people and the 4th largest economy with a GDP of 2051 trillion US dollars. India is also the 16th country in the world in GDP growth with a 7.3% growth in 2014. India's main industries are "textiles, chemicals, food processing, steel, transportation equipment, cement, mining, petroleum, machinery, software and pharmaceuticals". (CIA 2014c; CIA 2015c.)

India's Prime Minister, Narendra Modi, recently started strengthening ties with Europe and Canada, however, the present corruption in the country's public services is not well seen and is still a serious issues within the governmental organizations. Furthermore, it seems there is little to no action taken on the matter by government officials (Kandukuri 2015). The country's economic strength is their diverse and large workforce, second largest in the world; furthermore, India has a large English-speaking working population which makes them very competitive and gives them a core competence. Regardless of the of the country's efforts to apply policies that benefit the poor, they are still underperforming on literacy and proper education levels. (MarketLine 2015b.)

Modi's government has an ambitious plan in order to push forward a more urban infrastructure in India with the building of 100 smart cities, however, their expenditure on research and development is not up to the challenge. India is known to have a proper regulatory framework with a comprehensive legal system, however, they have very complex product market regulations which make it hard for foreign companies to work in India. (MarketLine 2015b.)

The People's Republic of China is currently the biggest country in the world population-wise with over 1.3 billion people comprised between its borders (CIA 2015d). With a GDP of 10.3 trillion US dollars, China is considered the 2nd largest economy after the

European Union (CIA 2014d). China's main industries are mining, iron, steel, aluminium as well as other metals, machinery building and armaments, petroleum, cement and ships, among many others (CIA 2015d).

Despite having a stable government, as the Communist Party of China has been governing for over 60 years, China has put some strains on their relationships with their neighbouring countries which might damage their political and economic interests. China has been experiencing a strong and stable economic growth in the past decades, however, the Chinese government is not as transparent as they proclaim to be (Chen and Feng 2000; Allen, Qian and Qian 2005). Despite China's improvement in social indicators such as life expectancy and infant mortality, there is still a very big gender imbalance within society. (MarketLine 2015.)

In recent years, the Chinese government has increased their R&D investment and they have developed institutions, however, they are faced with another problem; the loss of their graduates to foreign country. Their human rights have been improved since criminal law has become stricter, however, their judiciary system has a lot of room for improvement as it is seen as weak. Furthermore, because of their rapid growth, China is facing big environmental problems regarding greenhouse gases (Rozelle, Huang and Zhang 1997; Fu, Zhuang, Jiang, Shi and Lu 2007). (MarketLine 2015.)

Table 3: BRIC country comparison.

(MarketLine 2014; 2015a; 2015b; 2015c.)

	BRAZIL	RUSSIA	INDIA	CHINA
POLITICAL	+Strong republic +Economic integration -Corruption -Crime -lack of freedom of speech	+Open budget - Gov. pressures -Corruption -Terrorism -Bad Relations with West	+Strong Democracy +International relations +Stable government -Terrorism -Corruption	+Strong geopolitical influence +Constant government -strained international relationships -Terrorism -Human Rights abuse -Media Censorship

ECONOMICAL	+High FDI inflows +Strong macroec. framework +Incoming invest. -Inflation -Low productivity -Bad infrastructures	+Oil and Gas reserves -Rising Inflation -Oil and gas dependence	+2 nd largest workforce +pro-growth policies -inflation -debt -bad infrastructures	+Strong economic fundamentals +Largest FDI inflows -Overcapacity -Rebalancing of economy
SOCIAL	+better urban life +measures to end hunger and poverty +Education progress -inequality -child labour	+Lower poverty +Alcohol control -Gender gap -Government challenges -Broken civil society	+Growing % of young people +increasing life expectancy -bad health care -rapid urbanization -high illiteracy	+Increase live expectancy +Decline poverty +Reduction in inequality -Gender imbalance -Urban migration -Aging population
TECHNOLOGICAL	+Gov. improving R&D +Improving tech education -low R&D output -low availability of human resource	+Partnership in Nanotechnology +Partnership with china for military technology -Weak science and tech systems -Piracy	+Strong knowledge base +Strong English -low R&D expenditure -low training	+R&D investment +Space research +Government initiatives -Loss of graduates
LEGAL	+good legal structure - Complicated tax system -Not competition focused - Inefficient	+improvement business ranking -Weak judicial system -personal liberties at threat -media freedom threatened	+Good legal framework +VAT implementation -Trade and investment barriers -bad law implementation	+Decentralized court system +Better criminal law -Lack of Safeguards to maintain independence in adjudication
ENVIRONMENTAL	+ Biodiversity + Hydropower -CO2 emissions	+New env. policy +International co-operation -Illegal logging -Env. Hazards	+Biodiversity +Climate action plan -Dependence on fossil fuels -poor water resource	+Rich biodiversity +Evolving env. policies -Use of coal -Water & Soil contamination

2.6 Theoretical Framework and Hypotheses

In this section, the theoretical framework of the thesis, as well as the hypotheses that will be examined in the empirical section, will be explained. Figure 19 demonstrates the theoretical framework of this project, in which one can see the three main sections of this project; first we will look into the entry mode selection preferred by globalizing internationals, then the influencing factors affecting entry mode selection to BRIC

countries, and last the motivation of globalizing internationals for entering BRIC countries.

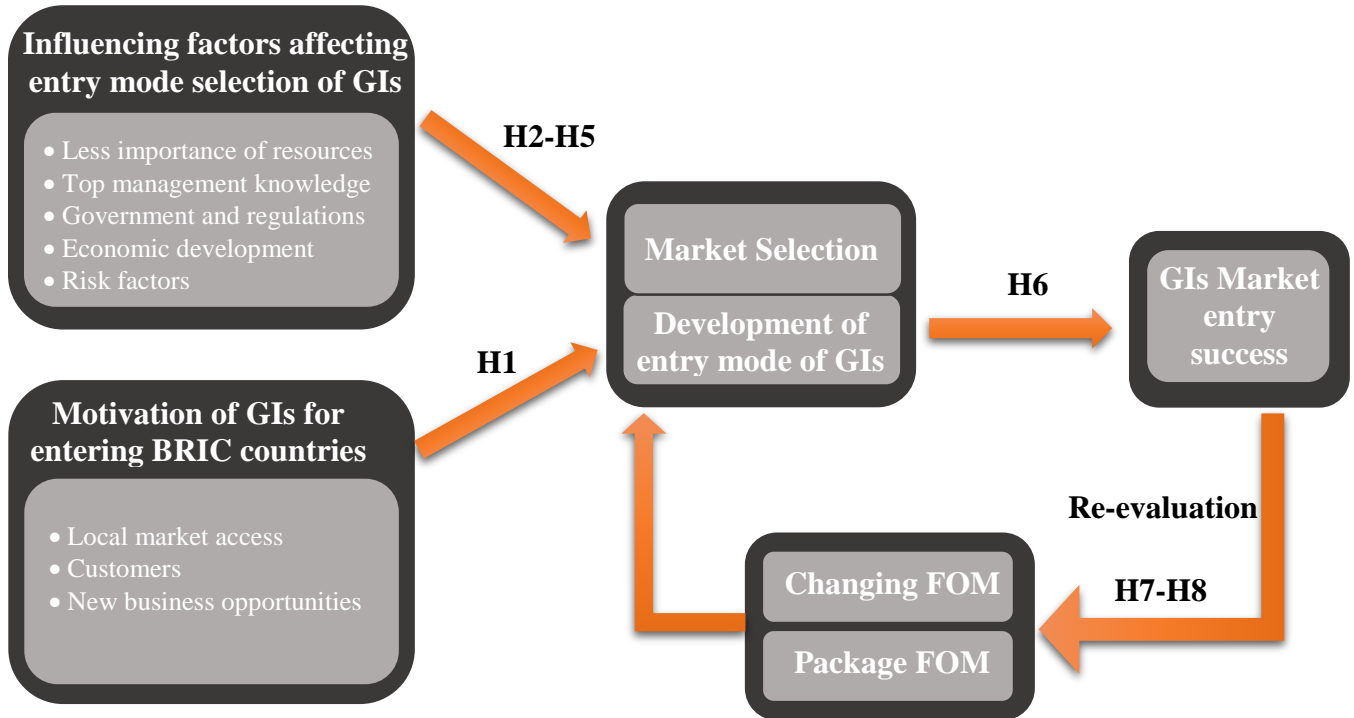


Figure 15: Theoretical framework

Motivation of Globalizing Internationals for entering the BRIC countries

One of the major attractive points of BRIC countries is their market size as well as their rates of growth. Furthermore, these countries have generally quite low labor cost as well as low raw material costs and low infrastructures costs (Enderwick 2007:11). Emerging markets also provide globalizing internationals with great learning opportunities; these countries generally have a new culture and different way to conduct business, which might prove valuable for future foreign activities (Enderwick 2007: 17-21). Emerging markets offer a new customer portfolio. Furthermore, the BRIC economies have been growing at a consistently higher rate in the past decades. For instance, China is currently the first and biggest ship-building nation, making it an extremely attractive market for marine companies; Brazil is currently the 11th in the list (Statista 2014). One of the major motivations for entering into international joint ventures is risk and liability sharing,

resource sharing, market access and competitive leverage. Companies want to have access to key resources that are lacking in their home country, these being customers or market share, and sometimes the only way to do so is by acquiring a partner. (Deitz et al. 2010; Cavusgil et al. 2002.)

H1: The main motivation of globalizing internationals for entering BRIC economies is gaining local market access, customers as well as new business opportunities.

Influencing factors affecting entry mode selection to BRIC countries

There are many factors influencing the entry mode selection of a firm; for instance, the size and age of the firm as well as their resource availability will dictate what they can afford and what method is best to use (Andersson, Gabrielsson and Wictor 2004; Johanson and Vahlne 1977; Stinchcombe 1965; Storey 1994; Benito and Welch 1994). However, this might not be the case for globalizing internationals, as they are big in size and resources are generally not a problem (Stinchcombe 1965; Storey 1994; Bonaccorsi 1992; Calof 1993; Andersson et al. 2004; Cavusgil et al. 2002)

H2: Once a firm goes from international to global, the importance of resources to enter a market decreases.

Andersson (2000, 2002), stated that both the CEO of a company and the top management have a direct influence on the level of internationalization of the firm. Other researchers have stated that the more experiences these have with entry methods the higher risks these will be willing to take and will be looking at the long-term profitability (Bloodgood, Sapienza and Almeida 1996; Paliwoda and Thomas 1998; Root 1994; Van Fleet 1991 Johansson 1997; Kock 2001). Furthermore, O’Gorman (2000) believes that other than experience, good planning is key for entry market success (Aaby and Slater 1989; Ibeh 2000). Furthermore, it is important to have a highly differentiated product as well as technologically compatible in order to succeed (Cavusgil et al. 2002).

H3: The higher local market knowledge and international knowledge top management has, the more they will be willing to invest on a higher commitment FOM.

When entering a new market, influencing factors are not only those internal of the company. There are also the external influencing factors related to the target market; the size of the country, the sales potential of this one as well as the demand for the product sold or the existing competitors. It is important to assess the market volatility as well as what operation method fits the market the best. (Cavusgil et al. 2002; Miller and Friesen 1984; Zahra 1991; 1993; Zahra, Neubaum and Huse 1997; Koch 2001). Another factor that must be taken into consideration is the production conditions in the target market; for instance, production costs and raw material costs, labor costs and level of infrastructures. (Cavusgil et al. 2002). Furthermore, environmental factors are extremely important and dictate the ultimate success for the company. Globalizing internationals must consider the economic situation of the country; economic development, especially in emerging markets, is very changing. The political situation in BRIC countries is generally not stable and the society might not be as educated as needed. The government generally sets protectionist measures against foreign companies like high import costs, or local regulations. Furthermore, corruption is a very present topic in these countries. (Cavusgil et al. 2002; Cavusgil 1985; Johanson 1997; Van Wood and Goolsby 1987.)

H4: Globalizing Internationals must assess the market conditions, economic development, regulations and risk factors in the target market before choosing a market and developing a foreign operation method.

H5: Government and regulations, as well as the economic development in BRIC countries play a big role on globalizing international's when choosing a market and developing a FOM, as they might set constraints or enhance a certain FOM.

Development of entry mode of globalizing internationals

Method choice tends to be a complicated domain for organizations; one must weight in the goals and objectives together with the potential risks and liabilities as a part of the method evaluation process. (Welch et al. 2007: 451) This is a process in which the firm is not fully in control of; there are other factors involved like local governments and regulations, and by the time the method choice has been shaped this one might look different from what it was desired (Welch et al. 2007: 440). Negotiations take time, especially in foreign countries; one must treat a business contract like the start of a personal relationship. The level of trust needs to be set, as well as the level of responsibility and conditions. (Tomassen et al. 1996; 1998.) Other than the business relation and deal requirements, a company needs to take into consideration the government's demands, as these might set restrictions and limit the operation methods available for use (Welch et al. 2007: 440).

H6: The entry success of globalizing internationals into a foreign market depends on the market conditions, the partner chosen, the FOM chosen, the level of commitment as well as the country regulations.

Re-evaluation of entry methods strategy

Several researches have shown that it is not uncommon for companies to experience various problems in mode use, which might result in the change of FOM used as well as in the re-evaluation of their strategy (Benito et al. 2005; Calof 1993). Mode switching is a tool that helps companies re-evaluate their operations and change the method used. This is a very common strategy for those who seek a deeper market penetration or solve undesirable situations in the foreign market. (Pedersen, Petersen and Benito 2002; Welch et al. 2007: 418-431.) Mode switching can be used in order to correct certain managerial misjudgments done in the initial decision making (Welch et al. 2007: 365; Calof 1993), or for instance to get out of an unsustainable situation in which the costs are too high (Benito and Welch 1997). The market can also experience a sudden change of

environment, therefore companies might need to switch their operation method in order to adapt to these new circumstances (Welch et al. 2007).

H7: FOM switching can be used by globalizing internationals when moving from an international company to a global company, in order to improve their business situation in the foreign market and/or manage rising challenges, end undesired partnerships, cut costs or adapt to their new needs.

Instead of mode switching, a company might choose to use mode combination or mode packaging; this is when a company adds one or more FOMs to an already existing one (Welch et al. 2007: 393). A company might choose to do so if they have unrelated business units (Welch et al. 2007: 396; Porter 1985), if they are serving different customer segments (Coughlan et al. 2006), if they are looking for value activity specialization without any kind of customer segmentation (Valla 1986; Welch et al. 2007: 398-399), to bolster commitment and control and to benchmark local operators. (Berle and Means 1932; Jensen and Meckling 1976; Grossman and Hart 1986.)

H8: FOM combination can be used by globalizing internationals in their change from international to global in order to manage unrelated business units in their global operations.

3. RESEARCH METHODOLOGY, DATA COLLECTION AND ANALYSIS

When doing a research, the choice of method is one of the most important phases in order to determine the research design; this choice generally goes between quantitative and qualitative studies. Below the research approach and design, as well as the measurements and the collected data will be explained.

3.1 Research methodology and data collection

In order to set the direction for the research, it is important to set a research philosophy from the start. A research philosophy is a way to relate the development of knowledge to the nature of knowledge. (Saunders, Lewis & Thornhill 2009.) There are many points of view as how to categorize these, however, for this research the interpretivist view was chosen; this point of view allows the researcher to take a more subjective approach on the study and take their own conclusions on the matter (Mayers 1997), however, it is important to keep in mind that researches can be improved over time (Hirschman 1986; Collins 2010: 38). A research approach is that one that plans and has procedures to create the research; it implies detailed methods of data collection, analysis and interpretation (Creswell 2014). For the purposes of this research a deductive approach will be used; this is because it is initially based solely on the theory to later, through hypotheses, do the empirical testing. (Saunders et al. 2009:109; Saunders et al. 2007:117-118.)

Generally speaking, one can classify data-collection methods in many ways, for this research only interviews will be relevant (Sullivan-Bolay, Bova and Singh 2012). Qualitative research is the method used when implementing interviews. (Creswell 2014.) A qualitative method of study is that one that focuses rather on understanding a topic and seeing from a respondent point of view. (Ghauri & Gronhaug 2005: 109-111.) It is important for this research to be able to go in-depth with each interviewee and have a good understanding of the information provided. Therefore, for the purposes of this study, the research approach will be a qualitative analysis done one case company. According to Imms and Ereaut (2002), a qualitative research is “a form of market research that seeks

to explore and understand people's attitudes, motivations and behaviors – The 'why' and 'how' behind the 'what' – using methods that seek to reach understanding through dialogue and evocation (rather than measurement). Qualitative research generally attempts to make sense of and interpret phenomena in terms of the meaning people bring to them". The data collection will be done via face-to-face interviews.

After having chosen a research approach, in this case a qualitative study, the research must also choose on the type of study between these three. In qualitative research, there are five types of study types. (Creswell 2014.) For the purposes of this research, the research design used will be a case study based on the globalizing international case study company. A case study is a type of design that is found in many fields; the researcher must develop and in-depth analysis of a case and these cases are limited by time and activity. The researcher collects information using various procedures of data-collection over a determined period of time. (Stake 1995; Yin 2009; Yin 2012.) When using a case study as research method, the necessary data can be collected via a single case or combining multiple cases (Saunders et al. 2007:139-140). For the purposes of this research, as mentioned above, one single case study will be used; while this might bring less reliability to the study, it will provide a more in-depth understanding on the studied matter (Farquhar 2012:43).

Amongst all the possible data-collection methods, for this report only interview methods will be used, both via skype and face-to-face. There are several types of interview methods; but this report will collect data based on in-depth interviews. This method is based on one-to-one face-to-face interviews which each last approximately one to two hours. (Imms and Ereaut 2002.) In-depth interviews are intensive interviews with a small number of respondents so that a specific idea can be analysed (Boyce 2006); in this case the idea to be analysed is globalizing international companies entering BRIC emerging markets and what influences this entry. This method will be very useful given that it provides the opportunity to have open discussions with experienced people in the field, therefore the data gathered can be more reliable.

There are several types of in-depth interviews; structured, semi-structured and unstructured. For the purposes of this study, a semi-structured interview will be used. A semi-structured interview is that one that discusses broad topics and the respondent can add and develop ideas. The interviewer may have a set of questions to guide the conversation and may contribute to the discussion, however, these types of interviews are generally a one-way information flow. (Fylan 2005.) The advantages of using semi-structured interviews is that interviewees can feel free to introduce new topics and speak freely about their experiences, rather than just following a series of questions.

3.2 Sample

When conducting a research, sampling is a crucial part of this one, as it limits the amount of cases and it increases the relevance of the research. Furthermore, it allows the researcher to target their sample and collect more detailed information on a certain matter. (Saunders et al. 2007:206-207.) For this research, non-probability sampling was used, as it is the most common type of sampling for case studies. Non-probability sampling is that one in which there is no knowledge on what the selected sample will be, therefore the probability to be selected is not known. (Tansey 2007; Schillewart, Langerak and Duhamel 1998; Saunders. 2007:208.)

Because this research is based on globalizing international firms, an initial firm selection criteria was set; the company had to have followed a traditional internationalization path to then become global over time, the size of the company must be that one of a multinational corporation, the company must be Finnish and with extensive experience in foreign markets.

In order to conduct the sampling for this research, an email was sent to many people within the organization, from different departments in order to get insight from different points of views (see Appendix 2). The respondents that were interested in participating then agreed with the interviewer on a certain date and time for the interview to take place. Prior to the interview, each interviewee was provided with the interview questions

template, in English, (see Appendix 1), so that they could be familiar with the line of questioning for the day of the interview. However, they were also advised that it was going to be a semi-structured interview and any extra information, not previously questioned, could be suggested during the interview. At the end of each interview, I asked the interviewee to nominate two colleagues who he or she would see fit to participate in the research and could provide valuable information.

This type of sample strategy is also known as snowball sampling; the researcher chooses one point of contact within the organization and then asks this one to identify future cases. The process repeats with the following interviewees until the researcher has reached the desired amount of cases. Because it can be complicated to identify samples within the organization if they are unknown to you, snowball sampling can become an asset in order to broaden the research results. (Biernacki and Waldorf 1981; Goodman 1961; Noy2008.)

As a result, a total of 12 people were interviewed from different backgrounds and departments within the organization. Four interviews were conducted face-to-face in Vaasa, six interviews were conducted face-to-face via Skype and two interviews were responded in written form due to time-zone challenges. The list of interviewees can be found below in Table 4.

Table 4: Interviewed participants.

Company	Participant	Position	Years in the org.	Office location	Nationality	Interview date and duration	Interview mode
WÄRTSILÄ	A	Director of sales and sales support	22	Vaasa	Finnish	15.2.2016 - 1h 25 min	Face-to-face
	B	Program director, Engines	14	Helsinki	Finnish	22.2.2016 20 min 23.2.2016 30 min	Skype
	C	Vice-president propulsion	20	Drunen	Dutch	22.2.2016 35 min	Skype
	D	Deputy General Counsel	10	Helsinki	Finnish	23.2.2016 30 min	Skype
	E	Vice-president of environmental solutions	27	Vaasa	Finnish	24.2.2016 50 min	Face-to-face

	F	PCM AMER area manager	7	Fort Lauderda le	American	25.2.2015	Written
	G	General Manager Services	15	Lagos	Dutch	3.3.2016 20 min	Skype
	H	Sales manager, Product Sales NE	35	Vaasa	Finnish	3.3.2016 30 min	Face-to-face
	I	President, CEO and Key account director of Wärtsilä Italy	20	Trieste	Italian	15.3.2016 56 min	Skype
	J	PCM supervisor MEA area	13	Turku	Guatemalan	16.3.2016	Written
	K	Senior advisor	45	Vaasa	Finnish	17.3.2016 13-16	Face-to-face
	L	Vice President of MS Engines	21	Trieste	Finnish	18.3.2016 17.30-19	Skype

3.3 Data Analysis

Before the data collected from the interviews could be analyzed, this one needed to be classified. According to Saunders et al. (2009: 490), there are three ways to classify data; one way is to structure the meanings of this data, categorize it and/or summarize it. Because the interviews conducted were semi-structured, the data collected was summarized via interview transcriptions and later on, these transcriptions were structured and categorized by relevant subjects to the research. These relevant subjects were based on the theoretical framework main topics as shown in Figure 19. Thanks to this categorization of data, it was possible to extract quotations from the interviews and use them in the empirical part of the research in order to make this one more relevant and contrasted.

There are several ways of analyzing qualitative data; data can be analyzed in an inductive or deductive way (Elo and Kyngäs 2007). A deductive analysis is used when the research is done based on previous knowledge (Kyngäs and Vanhanen 1999), while an inductive

analysis is done when there is not enough previous knowledge (Lauro and Kyngäs 2005). There is no stated structure for either of the analysis other than the phases of preparation, organizing and reporting; however, in both the text is categorized in many smaller categories (Weber 1990; Burnard 1996). A deductive content analysis is also used in researchers where the researcher wants to retest already existing data in a whole new setting (Catanzaro 1988); this involves not only testing hypotheses but also concepts and models (Marshall and Rossman 1995). Depending on the study's goal, the researcher will choose one of those methods (Catanzaro 1988; Robson 1993; Marshall and Rossman 1995). For the purposes of this study, a deductive approach will be taken, given that the empirical research is based on previously existing knowledge.

3.4 Reliability and validity

In order to understand reliability and validity for a qualitative research, this research will review several definitions. Despite reliability being used in order to test and evaluate quantitative data, it can be applied to any kind of research (Golafshani 2003). The most important thing to seek in a qualitative study is the high quality of it (Golafshani 2003), as this one helps us understand “a situation that would otherwise be enigmatic or confusing” (Eisner 1991: 58). Patton (2002) mentions that both validity and reliability are of utmost importance in a qualitative study, as it helps to analyze the results and the quality of these ones. Healy and Perry (2000) state that in order to assess the quality of a qualitative study there are certain terms that should be essential criteria of this one; “credibility, neutrality or confirmability, consistency or dependability and applicability or transferability” (Lincoln and Guba 1985). It is important in a qualitative research to seek trustworthiness in order to ensure reliability (Golafshani 2003). Joppe (2000) defines reliability as “the extent to which results are consistent over time and an accurate representation of the total population under study is referred to as reliability and if the results of a study can be reproduced under a similar methodology, then the research instrument is considered to be reliable”.

Joppe (2000) went on to describe validity “determines whether the research truly measures that which it was intended to measure or how truthful the research results are. In other words, does the research instrument allow you to hit "the bull's eye" of your research object? Researchers generally determine validity by asking a series of questions, and will often look for the answers in the research of others”. (Joppe 2000.) Yin (2014) remarks that there are four different sides to quality that need to be studied; construct validity, internal validity, external validity and reliability. One of the ways to construct validity is to use several reliable sources of evidence and that can be done by the triangulation of data gathered, like interviews or documents that can support the case study (Mathison 1988; Yin 2003: 98-99).

Mathison (1988) added that “triangulation has risen an important methodological issue in naturalistic and qualitative approaches to evaluation [in order to] control bias and establishing valid propositions because traditional scientific techniques are incompatible with this alternate epistemology”. For this report, multiple sources of evidence were used; twelve interviewed participants from the case company were used and they mostly had different backgrounds. Furthermore, information granted from annual reports and the case company's webpage were used. In order to increase the validity of the report it is important to keep a chain of evidence (Yin 2003: 105-106). This can be seen in this study through the explanation of the different phases of the report. Furthermore, each interview was recorded and transcribed, thus increasing the validity of the information exposed. Once the transcriptions were done, several quotes were chosen and presented to the interviewees for further review. These had the chance to comment and correct certain information, therefore, increasing the validity of the information contained in this study.

Internal validity was acquired through contrasting the initial research hypotheses with the data collected, furthermore, these results were contrasted with the theoretical base of the study. This was done in order to create understanding on how certain factors have a greater effect on companies entering certain markets. While it is recommended to use multiple case studies in order to reinforce the external validity (Yin 2003: 34), it was not chosen for this research as the study focuses on one single case in order to acquire a bigger depth of understanding on the topic.

Reliability can be reinforced by creating a clear and transparent chain of evidence for the research (Yin 2003: 105-106); in this case, one can see all the steps taken for data collection as well as the questions used to interview the participants (see Appendix 1). Along the project's empirical section, one can find literal quotes extracted from the interviews in order to increase this study's reliability. Furthermore, informant contact procedures, their background information, interview recordings, transcripts and approved quotes have been archived for possible future use.

4. EMPIRICAL RESEARCH AND RESULTS

This section will introduce the case company used for this research as well as the results extracted from the interviews conducted. Later on, by contrasting the interview results with the initial research hypotheses, conclusions will be extracted.

4.1 Case company description: Wärtsilä

Wärtsilä is a very well-known Finnish multinational company that was established in 1834. For more than 180 years, the company has been delivering engineering solutions to their customers and have continuously been innovating their products to keep their customers always one step ahead. Wärtsilä offers complete lifecycle power solutions to both the marine and the energy industries; furthermore, because of their good work along the years, they have become one of the global leaders in their sector. They aim to maximizing both the environmental and economic performance of their customers' vessels and power plants. (Wärtsilä 2016a)

In 2015, Wärtsilä accounted for over 18,900 employees placed in the company's more than 200 locations in almost 70 countries all around the world. The company's net sales for 2015 was a total of 5 billion euros; they account for a 59% market share for medium-speed engines for vessels, 5% market share for auxiliary engines and a 7.2% market share in the total market for gas and liquid-fuel-based power plants. (Wärtsilä 2016b.)

Wärtsilä has divided its activities into 3 sections; Marine Solutions, Energy Solutions and Services. Marine Solutions looks after the business of Wärtsilä's oil and gas industry customers by providing them with innovative products as well as integrated solutions that are environmentally sustainable, safe, efficient, flexible and economically suiting. Energy Solutions provides flexible baseload power plants of up to 600 MW that operate on gas or other liquid fuels. Wärtsilä is able to provide solutions for peaking power plants, reserve and load-following power plants. They also provide LNG terminals and distribution systems. Lastly, Wärtsilä services has the great task to support its customers throughout the whole lifecycle of their installation by helping them optimizing efficiency

and performance. Wärtsilä is committed to providing high quality and expert support, as well as the availability of services in the most environmentally sound way possible, wherever their customers are. (Wärtsilä 2016b)

4.2 Description of the data

In this section, the interviews content will be reviewed by looking into the proposed hypotheses and the responses on the different topics. In order to make this section more comprehensive, the quotes from the interviews will be marked in italics and each participant will have their own reference letter (X) referring to the letter classification present in the participant data table (see Table 4).

4.2.1 Wärtsilä's internationalization process

Wärtsilä began their traditional internationalization path in the 60's with heavy export to neighboring countries like Norway, Sweden and Germany (Wärtsilä 2016a). However, Wärtsilä did not stop their internationalization then; the director of sales and sales support stated that *"in the early 70's [they] started selling [their] products via agents or distributors"* (A). The above strategy was chosen because their main aim was to *"find sales where the needs were, regardless of the place"* (D). Therefore, at that time, it was easier to enter a country with agents and distributors as it was a low-risk FOM and it helped the company create brand awareness in new markets.

Wärtsilä has not always been a market leader in their sector; when they first started internationalizing they were *"number 23 in the world in this business"* (K), however, with the introduction of their *"32 engine [they] opened up a means to internationalization"* (K). The main reason for this product to become so successful is because, according to a senior advisor in Wärtsilä, it was introduced *"at the right time and because it was so differentiated from the rest [of products in the market], it provided [them] with a competitive advantage"* (K). As mentioned above, the introduction of this product gave Wärtsilä the grounds to expand further and increase their market share, this is the reason

why “*in the 80’s and 90’s [Wärtsilä began expanding via] a number of acquisitions and there was a consolidation in the type of foreign operation mode [used]*” (A).

The situation of Wärtsilä in the BRIC countries differs very much from country to country; China is and has been, by far, the most successful of these four countries. Wärtsilä’s business in Brazil, Russia and India has been stalling but for different reasons. “*Brazil has a big market potential but it is not very globally competitive. Their protectionism policies are very simple; they are about creating jobs locally. Both India and Brazil have very old-fashioned practices when it comes to import duties and tax regimes.*” (A.) Furthermore, the latest oil price drop has hindered Wärtsilä’s offshore business due to the fact that their customers are suffering from it.

Russia, until not so long ago, was still seen as a huge potential; however, because of recent events that have led to political sanctions and political instability it makes it a very difficult country to invest in. Participant A mentioned “*Russia’s potential is similar than the Brazilian situation; however, since the sanctions started, their domestic and global potential is rather limited*” (A).

Wärtsilä has been in India for a long time and they have been very successful in the past; however, today there is only one factory in Khopoli for manufacturing purposes. Below one can see some of the quotes extracted from the interviews commenting on the current situation in India; in them it is explained that, despite the present factory is serving its purpose, there is no future forecast for new businesses in the region.

“Ship-building and the marine business in India have to be understood as an opportunistic situation. Strategically, no new potential is seen in India.” (A.)

“We have been very successful in the past with India, especially with power plants. We have not been in broader scale in India because their power plant business has become smaller, and their ship-building industry has not taken the pace that china has. Also, the supplier base in India is much smaller than in China.” (B.)

“We still have today in India our service activities and a wholly-owned factory; they produce quality products for a lower price. However, there is no forecast to invest in new business activities in India because the market is stalling.” (E.)

China has been, and still is, the first growing emerging market in the world. In the last years it has demonstrated their growth potential and their business potentials, and this has not gone unnoticed. It is today considered as the biggest ship-building nation in the world, thus Wärtsilä has been continuously investing in it. Participant A explained the following; *“we saw that China will become the world’s biggest ship-making country. Therefore, we wanted to be inside of that equation. There were already many competitors licensing their products, however, we needed to pick up that competition but in a different way; hence the joint ventures. [Because of that], we were able to create a core value or a core competence for our products, not just create a copy of the original product.”* (A.) On the other hand, Wärtsilä’s success does not only rely on China’s huge business potential on the ship-building industry; the case company was able to adapt to the local regulations and make the best of it by choosing partners that would enhance their operations, not hinder them. Participant A confirms the above statement by saying *“we have always selected our partners along the axis of partnering with our biggest customers. The law says you have to have a local partner; we could have fulfilled that by choosing a silent partner to invest. However, instead we chose to partner up with the biggest potential clients, which stand for half of the domestic market. Partner selection was done careful in China.”* (A.)

Below a detailed table (Table 5) explaining Wärtsilä’s entry into these BRIC countries can be found. This one is divided into the year of entry, the operation method used as well as what kind of business line was this entry for.

Table 5: Wärtsilä’s Internationalization into BRIC countries timeline.

(Wärtsilä 2016a)

BRAZIL		
YEAR	FOM	BUSINESS LINE
2006	License agreement with Nuclebras Equipamentos Pesados SA.	2-stroke engines
2008	Wholly owned venture in Rio de Janeiro	Service office
2013a	Wholly owned venture in Rio de Janeiro	Service workshop
2013b	Wholly owned venture in Açú	Manufacturing plant
RUSSIA		
YEAR	FOM	BUSINESS LINE
1981	Representative office in Moscow	Service office
1994	Representative office in St. Petersburg	Service office
1999	Wärtsilä CIS opened with a branch in Moscow and St. Petersburg	Service office

2000	Main office moved to St. Petersburg	Service office
2006a	Wärtsilä CIS closes	Service office
2006b	Wholly owned Wärtsilä Vostok LLC	Service office
2007a	License agreement with Bryansk Engineering Works (BMZ)	Manufacturing of low-speed marine engines
2007b	Representative offices in Moscow and St. Petersburg closed	Service office
2009	Wholly owned venture in Murmansk	Service center
2010	Joint venture with Transmashholding	Manufacturing of W20 engines for rail market
2014	Wärtsilä divests from joint venture with Transmashholding	Manufacturing of W20 engines for rail market
INDIA		
YEAR	FOM	BUSINESS LINE
1988	Wholly owned assembly plant in Khopoli listed in the Bombay Stock Exchange	Diesel engine
2002	Wärtsilä increases ownership to 88.3%	Diesel engine
2003	Wärtsilä increases ownership to 89.3%	Diesel engine
2007	Wärtsilä india is de-listed from the Bombai Stock Exchange, Full ownership.	Diesel engine
CHINA		
YEAR	FOM	BUSINESS LINE
2003	Joint venture with CME	Propeller manufacturing
2005	Wholly owned venture in Wuxi	Production
2006a	Joint Venture Wärtsilä Qiyao	Generating set factory
2006b	Joint Venture with China Shipbuilding industry corporation and Mitsubishi heavy industries	Manufacturing large low-speed marine diesel engines
2008a	Joint venture with CWA	
2008b	Wholly owned venture	Service office
2010		Majority of propeller production and auxiliary engine production moved to China
2011a	Joint venture with Jiangsu CuiXing Marine Offshore Engineering Co. Ltd.	Manufacturing W26 and W32 engines
2011b	Joint venture with CME	Propeller factory
2012	50/50 Joint venture with Yuchai Marine Power	Manufacturing medium-speed marine engines
2014a	Joint venture with China State Shipbuilding Corporation (CSSC)	2-stroke engines
2014b	Joint venture with CSSC	Engine manufacturing: W26 V-configuration, W32 main and auxiliary engines, W46 and W34DF & W46DF dual fuel engines.
2014c	Wärtsilä divests from JV with Qiyao created in 2006	Manufacturing large low-speed marine diesel engines
2014d	Joint venture with Yuchai	Medium-speed marine engine factory
2015	Joint venture with CSSC	Medium and large bore, medium-speed, diesel and dual fuel Wärtsilä engines



Figure 16: Wärtsilä's internationalization path into the BRIC countries

(Wärtsilä 2016a)

4.2.2 The change from an international to a global company

With the rapid expansion of Wärtsilä in the 80s and 90s, the company began to be understood as a global company, not as an international company anymore. Participant A explained that *“when Wärtsilä became a big player in 4-stroke engines, then [they] started to think what else [they] could do for their customers. [They] began to diversify [their] products by introducing propulsion, automation, pumps, services, etc. [They] became more resourceful and a multiproduct company, rather than just focus on one product.”* (A.)

With this rapid increase in their market share and market expansion, Wärtsilä started to diversify their product portfolio. However, because they were entering markets that were unknown to them, they had to learn to adapt to new situations and new markets. When the vice president of Marine Solutions – Engines was asked about the effect globalization had had on Wärtsilä’s way of implementing their operations, he mentioned that *“the foundation of [their] operations remained similar overtime, however, the operation methods used developed together with the learning gathered from previous experiences; you have to adapt to local rules and regulations”* (L). This leads to thinking that the gain of experience acquired along the way in their internationalization and globalization process has been extremely valuable in order to shape their strategy into what it is today. The CEO and president of Wärtsilä Italy added to that that *“rather than entering markets differently, with our move from [an] international to [a] global company, we have changed in the way we choose our location and the type of partners we take. We have certain points that are basic and cannot be discussed, while on other matters we are more flexible and we need to adapt depending on the product and the partner. We have had a development in our experience.”* (I.)

With the pass of time and the acquirement of experience through different foreign operations, Wärtsilä has learnt to adapt and select the countries and methods that best serve them. However, the question still remains on whether they began to consolidate their foreign operation methods used once they became a global company. The Programme director for engines responded that there is not such a thing as *“one method*

to use, it has always depended on the local circumstances” (B). Therefore, one can understand that there is not such a thing existing as that one operation method that can be used everywhere once a company becomes global; local adaptation will always be needed.

On the other hand, has Wärtsilä always localized their practices? It can be very common, especially when creating a Greenfield venture in a foreign country, to bring your business practices into that business. When asked about this, the vice president of propulsion systems services, who has had extensive experience in several Wärtsilä joint ventures in China mentioned that *“Wärtsilä did not always localize the HR practices, sometimes we take it too European. There are quite a few examples where our western way of dealing with matters does not always work in another culture.” (C.)* Nowadays, however, this seems to be shifting; Wärtsilä has created a consolidated brand and they try to implement this Wärtsilä brand in every new venture they undertake while still considering the local requirements and needs. The sales manager of product sales in north Europe added to that that *“Our organizational structure has both local and global management. We work in international markets with people from different cultures, [therefore], we are training our people [in an] international way of working.” (H.)*

Another relevant question regarding the move from an international company to a global company is whether or not the involvement of headquarters has changed over time; the way in which globalizing internationals set their strategy can vary depending on their needs and products. Some prefer to have a stronger involvement from headquarters, while other companies delegate the responsibilities of management to the local offices. The general deputy counsel mentioned that *“the level of central involvement [in] our businesses can partly depend on the local managers and the way they conduct their business [as well as] partly on the role a subsidiary has in the business of our company” (D).*

All the above draws the conclusion that the change from internationalization to globalization has not caused a major strategy change for the case company, however, it

has provided very valuable data and experience overtime that has helped them to adjust their business practices.

4.2.3 Motivation of Globalizing Internationals for entering the BRIC countries

Motivations for entering a certain market may vary from company to company, there are many different variables affecting this choice; for instance, the type of product marketed, the company resources, company size, among many others. For the purposes of this study, hypothesis one stated that the main motivation of globalizing internationals for entering BRIC economies is gaining local market access, customers as well as new business opportunities. This was one of the most answered questions during the interviews and because they were all valid points below one quote from almost each interview has been selected:

“The growth rate and the access to those fast growing markets; Brazil and Russia have been natural resources driven potential, while India and China have been rather customer driven interests as well as the costs of labor” (A).

“We have followed the market in every case, we are not so focused on labor costs and it has never been a main driver. It has always been about the market access. You need to be in [the market] as they are hard to understand from the distance. The customers and partners would not consider you [as a] local if you do not exist in the market.” (B.)

“It had to do with market attraction and company needs rather than similarities in countries. We were not really competitive with labor costs and transport costs, therefore we had to follow the customer in order to make the products closer to the customer. That way we could cut costs and lead time. We have to follow where the ship-yards [...] and be where the customers are.” (C.)

“Wärtsilä has done their decision for method choice based on a country’s business potential and shipyard location in the case of marine solutions. Emerging markets are low cost and that is always a motivation to conduct business.” (E.)

“The opportunity to expand a product into a market place that is on the rise both in population, education and is financially stable to support the development [or] alignment of their marketplace with others around the world” (F).

“It really depends on the country, and the way the country is structured [...] and the possibilities this one offers” (G).

“We were attracted by the market, its size and location; for instance, China was a very big growing market, and to be able to build engines locally is a very big competitive advantage” (I).

“Companies [...] are in the search for opportunities for growth. Aiming to establish in a structured market having [a] friendly business environment, also accessible laws, cheaper labor force and competent staff.” (J.)

“Around 80% of the vessels build are in Asia, 40% of which are built in China; therefore, in order to be competitive we needed to be close to the customers in these markets. We were not primarily driven by cheap labor or lower costs, rather by market access and customer proximity. Another good reason is that once you established you supplier base in China, for instance, you can then utilize this for your European factory.” (L.)

All the above quotes seem to have several consolidated concepts and ideas; for instance, they are in agreement that one of the biggest motivations for Wärtsilä to enter these BRIC countries was their growth rate, their size, their potential and the location of the shipyards. While low labor and manufacturing costs do not seem to be Wärtsilä’s main driver for entering these countries, it is still considered as an added benefit. Participant B raised a very interesting topic mentioning the importance of existing in the market in order to be considered by the local customers and prospect local partners. This last one, together with the location of your customers, is perhaps one of the most important things to consider when looking for a new market to enter.

4.2.4 Influencing factors affecting entry mode selection to BRIC countries

Amongst all the possible influencing factors that can have an effect on a company choosing to expand, this study has chosen to focus on the ones thought to be the most relevant; resources, knowledge, local government and regulations, economic development, risk factors, as well as market conditions. Hypothesis 2 says the following; once a firm goes from international to global, the importance of resources to enter a market decreases. Participant L agreed with the above by saying *“we were not primarily driven by cheap labor or lower costs, rather by market access and customer proximity”* (L). When a company has expanded as much as Wärtsilä has, they reach a point that resources are not considered as much as a restrain as they would be for an SME. Therefore, they have the advantage of no monetary constrains and the freedom of choosing what is good for them, instead of what they can afford. Participant I added that *“the basic idea for Wärtsilä was not to build engines in low-cost countries; on the contrary, our idea was to be close to where the engines were needed in order to have a competitive advantage by having the production where the engines were needed”* (I).

Hypothesis 3 says that the higher local market knowledge and international knowledge top management has, the more they will be willing to invest on a higher commitment

FOM. Participant A answered to that that *“the management team forges the operation method strategies; behind these decisions are people, and behind these people there are experiences – good and bad -. These experiences way into the decision making as to how to proceed.”* (A.) Therefore, we can understand that experiences are the ones that back a company’s chosen FOM. The more experiences in all levels of the business, the better chances of choosing the right FOM for a certain market. *“The operation methods used developed together with the learning gathered from previous experiences”* (L).

Hypothesis 4 states that globalizing Internationals must assess the market conditions, economic development, regulations and risk factors in the target market before choosing a market and developing a foreign operation method. This implies that all of the above are influencing factors that can have an effect on the case company when developing a foreign operation method. When the interviewed participants were asked about what are the things Wärtsilä needs to look into when engaging into a new venture in a foreign country, a lot of responses matched hypothesis 4 above. On the other hand, some had some things to add to it. Below one can see some of these responses:

“We should investigate deeper what is normal in the foreign market and adapt our labor practices to local standards” (C).

“You need to analyze the market conditions, the partners, the backgrounds and drivers in the market place. You need to be aware of the regulations and act accordingly. In many cases, you need to have a partner that is aware of the local conditions and knows the supply chain and other market conditions in general.” (D.)

“In these rapid developing countries, you need to be prepared for the environment to change in the same time, while in an established country the changes are not so fast. You need to take into account the country development as well as the competitor’s potential actions.” (E.)

“Understanding how quickly politics can change in such a market place and ensuring your ROI is capable of supporting such a change” (F).

“We need to understand what is the country’s culture as well as business culture. Every country might present a different business approach and we need to be flexible to these and adapt to them. You need to understand their education, their culture and their approach.” (I.)

“We need a deeper research or study to have highly competent staff in almost all fields of the business” (J).

As seen above, there are many more variables in play than just market conditions, regulations and prospect risks. The case company must assess not only the target market’s

culture but also their business culture; they must study what are their labor practices and adapt them in their new venture. Furthermore, forecasting competitors' moves can prove highly useful before setting up a new business.

Hypothesis 5 says that the government and regulations, as well as the economic development in BRIC countries play a big role on globalizing international's when choosing a market and developing a FOM, as they might set constraints or enhance a certain FOM. Again, this was one of the most discussed topics of the interview, as these countries political scenarios have not always been stable and still are unstable today. First we will review some quotations regarding the effect of the local government and local regulations on Wärtsilä's practices.

"They play an extremely important role, in the case of China, it has provided both stability and limitations. Corruption is a common nominator and there is a strong government influence over important decisions and transactions." (A.)

"There are sometimes certain economic benefits, tax benefits, when establishing a business in China, however, they only last for a certain time. Russia and Brazil have faced more difficult times." (B.)

"The regulations have given the framework in which we have to operate; they have not exactly promoted our business but they have not hindered it either. In some cases, like Brazil, the government policies have encouraged local production due to their high import duties." (D.)

"The government casts a very big influence on foreign businesses. Brazil is a complicated country due to their customs procedures and they require 70% of the output in offshore business to be locally produced. India is too bureaucratic; because of that, they create barriers to their own development. Russia has had their ups and downs along history, however, nowadays it is challenging to conduct business there due to the current EU restrictions and the high level of involvement of politics into businesses." (K.)

"When talking about engines in China, we have no choice but to choose joint ventures due to the government's regulations" (L).

It is clear in all the above cases that the government and all the regulations they set have an effect, both positive and negative in some cases, on the way Wärtsilä has entered markets and chosen a FOM. As mentioned above, in the case of China, Wärtsilä has been limited by the Chinese regulations to have a partner when it comes to engine manufacturing. In the case of Brazil, the government requires a high level of local production and the use of local workforce. Furthermore, political instability, like in the case of Russia, is very unappealing to companies looking to expand their business. The economic development of these countries also has an effect, either directly or indirectly,

on Wärtsilä's performance. Below one can see some of the interview responses on the matter:

"The economic development of the country has a huge effect on Wärtsilä's success and interests. If we are in a market that has no future Wärtsilä needs to make an efficient decision." (B.)

"We follow the general trends, if the global economy is going down, we cannot affect it. The global economy impacts differently on our different businesses. For instance, the oil price going down has had a very big impact on our offshore business." (E.)

"The economic development has a great effect on our performance, for instance, now China is suffering and they are more open to having foreign companies there to bring more business into the country." (G.)

"The economics development of a country has a big effect on our business line, given that it may lower the demand if the development is low. For instance, the drop of oil price in Brazil has affected both our business and our customers' businesses." (K.)

"The economic development in these countries has a direct effect on Wärtsilä's success in the market; especially, these BRIC countries are a good example as they are stalling. The market conditions, level of demand as well as the competitors in the market have an effect on Wärtsilä's performance." (L.)

With the above quotes, it is clear that economic development plays a big role into Wärtsilä's performance, even if they cannot affect to it. A drop on demand or a drop on the oil price as mentioned can be seen translated into lower figures.

However, governmental actions and economic development are not the only drivers that have an effect on the case company. According to participant B, *"you need to have very good local resources but also very good international resources in order to be successful. This requires certain skills in-house and capabilities to hire certain skills in the country."* (B.) In other words, having a good supplier base both in the target market and abroad is one of the keys to success. Other factors that have an effect on the case company's performance are, according to participant I, *"the quality of our products as well as [their] renowned brand"*. They are well-known for the good-quality products they offer as well as for the great performance of these ones, therefore, they depend on this to remain the same in order to keep their customers happy. Last but not least, participant K mentioned that *"in these countries you need to be very flexible; politics are constantly changing and you need to adapt to these changes. Adaptation is very much needed in these countries, and we need to learn to use the local workforce as an asset to the company. We like to*

enter a country by adapting to their culture and at the same time applying Wärtsilä procedures.” (K.)

4.2.5 Development of entry mode of globalizing internationals

Hypothesis 6 mentions that the entry success of globalizing internationals into a foreign market depends on the market conditions, the partner chosen, the FOM chosen, the level of commitment as well as the country regulations. In the above section, it has already been established that market conditions, country regulations and partners may dictate the success of entering into a certain country. However, how does Wärtsilä choose what method to use in the target market? Participant A mentions that *“it is quite simple; sometimes there is only one way, for instance engine production in China. You need a partner as you cannot acquire a license on your own. Therefore, a joint venture is the way to go”*. (A.) Therefore, in the case of engines in China there is not many choices or decisions to be made, however, participant E mentions that *“[they] have used different operation methods in these countries as they had different needs and requirements. It is important, as a company to be able to be flexible and adapt to each country’s requirements.”* (E.)

Choosing a foreign operation method is not always easy as this *“depends on the business needs and the circumstances in the market place and the country. You need to assess the other market players as well as supply chains available, availability of labor and the market situation. One strategy does not fit all countries. These countries in particular are heavily regulated, so in many cases we cannot choose the way we operate as their regulations dictate what we can do.”* (D.) This is proof that the case company must look into what is the target market situation before beginning to develop a FOM to enter the market. Adaptability and flexibility are the keys to success in this situation; being able to research the market well and plan a strategy that fits that market is of utmost importance. Furthermore, companies must be ready for situations to change rapidly and they must be able to adapt to these changes.

Participant K explained the way they have been conducting business along the years; *“We start by appointing an agent in a certain market; once we see that the volume is at a*

certain level, we might consider it worthwhile to create our own set-up in that country and pursue a higher investment operation method. [...] However, this is not always the case, in Africa we do not use this set-up, and we go directly ourselves.” (K.) Participant B added that *“Wärtsilä always has a sales office or services in place before placing a manufacturing set up”*. This shows that despite of the fact that one strategy does not fit all the countries, Wärtsilä has a system in place. They enter a market with a low-risk method to later assess if it is in their best interest to continue with bigger investment methods in that same market.

4.2.6 Re-evaluation of entry methods strategy

Hypothesis 7 states that FOM switching can be used by globalizing internationals when moving from an international company to a global company, in order to improve their business situation in the foreign market and/or manage rising challenges, end undesired partnerships, cut costs or adapt to their new needs. After my interviews, it was understood that Wärtsilä has not experienced this situation much in these BRIC countries, however, below several quotations on the topic can be found:

“Foreign operation methods develop overtime, other times, when partners do not perform, it is better to step out and do our wholly owned [venture] or look for other partners” (C.)

“Operation methods depend on certain business scenarios, there is always the potential to improve things in the countries we operate. Joint ventures are sometimes not optimal as we do not have full decision power, therefore, sometimes we have changed to a fully-owned solution in order to have better governance. Sometimes we are facing a challenging business climate or a difficult situation that is not profitable for us, then we need a change of strategy.” (E.)

“We always look for profitability in our business, therefore, in order to meet our bottom line we might need to make a change in strategy. That is also the case when country conditions change, we need to be flexible to these changes and adapt our strategy to them.” (K.)

“When you are in a joint venture, you do not have all the power of decision or your partner might have different goals than you; therefore, wholly owned businesses are generally more desired. Despite we have not experienced this in many occasions, if a partner offers little to no benefit to your operation, it is sometimes better to search for a different partner or dissolve the agreement. An operation method change might also be used in order to react to a bad market situation.” (L.)

According to the above quotes, it seems the most common reasons for changing the used operation method is to end undesired partnerships, adapt to new market situations, have better governance and/or seeking better profitability.

Last but not least, Hypothesis 8 mentions that FOM combination can be used by globalizing internationals in their change from international to global in order to manage unrelated business units in their global operations. Again, this has not been very used by Wärtsilä, they have only used mode combination in order to accommodate unrelated business units. For instance, in China they have a licensing agreement and a joint venture with the same partner; the licensing is always of 2-stroke engine manufacturing and their joint venture in this case is related to their 4-stroke engine business. Participant A commented that *“in China, Wärtsilä has both joint ventures and licensed with the same customer, depending on the product line. This is not done in other BRIC countries, as in Brazil we have a fully owned business and in Russia it is different partners. IT has been useful because relations are important. Entering into these kind of ventures requires a fair amount of mutual trust. Having a business history is crucial in order to succeed in the partnership”*. (A.)

4.3 Interpretation of the data

The above section has served not only to describe the data but to contrast it with the proposed hypotheses. This section will discuss whether or not the hypotheses developed have been tested and if we can agree to what they state. If the hypotheses are not fully validated these will be re-formulated by the researcher. Therefore, after reviewing these hypotheses they will be re-formulated into proven statements. Hypothesis one said; *the main motivation of globalizing internationals for entering BRIC economies is gaining local market access, customers as well as new business opportunities*. The interview participants agreed firmly with the above statement, however, they provided further drivers that create interest for them in emerging markets. The reason for their interest of gaining access to the local market is not only because the country is business-attractive but because of the fast growth of this one, the customers location as well as the business

potential of this one. Furthermore, once you gain access to the local market, you can acquire valuable local knowledge. Therefore, the re-formulated statement can be seen below as a re-named statement called F1 (Fact 1):

F1: The main motivation of globalizing internationals for entering BRIC economies is gaining access to these fast growing local markets as these have a big business potential, their customers are located there and they can gain important local knowledge.

Hypothesis two stated; *once a firm goes from international to global, the importance of resources to enter a market decreases*. This has been proven to be true according to the participants. Wäertsilä's main motivation when entering these markets is not the search of cheaper labor or cheaper raw materials, of course that is an added benefit for any company, but that is not the principal aim. Therefore, it can be stated that the importance of resource allocation is seen reduced once the firm becomes bigger and more global. In other words, H2 does not need to be re-formulated, therefore, F2 remains the same. Hypothesis three says: *The higher local market knowledge and international knowledge top management has, the more they will be willing to invest on a higher commitment FOM*. This hypothesis has also been widely accepted by the participants by saying that their foreign operation method used has been developed over time based on their previous experiences. Furthermore, it was explained that because the decisions on FOM used are taken by management and they base their decision on their previous experience, experience has proven to be of utmost importance and should be added in the statement. Therefore, the above hypothesis has been slightly re-formulated as can be seen below:

F3: The higher local market knowledge and international experience top management has, the more they will be willing to invest on a higher commitment FOM.

Hypothesis four says: *Globalizing Internationals must assess the market conditions, economic development, regulations and risk factors in the target market before choosing a market and developing a foreign operation method*. While the above statement was

agreed to be true by the participants, there are other things that the statement should contain; for instance, the case company must understand the target market's culture as well as business culture and be able to adapt to this. Furthermore, it has proven very useful to be able to forecast competitors' plans in order to set company strategies and goals. Therefore, Hypothesis 4 has now been re-formulated into Fact 4 and can be seen below:

F4: Globalizing internationals must assess the market conditions and future competitors, economic development, regulations and risk factors in the target market as well as to be aware of their culture and business culture and be able to adapt to it.

Hypothesis five states the following; *Government and regulations, as well as the economic development in BRIC countries play a big role on globalizing international's when choosing a market and developing a FOM, as they might set constraints or enhance a certain FOM.* This was a widely discussed topic during the research interviews and all agreed that, in one way or another, the government, regulations and the economic development all played an important role in their business. Sometimes the effects could be positive, but some other times they had experienced negative outcomes. What they all agreed upon is on the importance of being flexible and able to adapt to changing situations. Therefore, Hypothesis 5 has now been re-formulated into Fact 5:

F5: Globalizing internationals must be flexible and able to adapt to changing situations, given that government and regulations as well as the economic development play a big role on the development of a FOM and they might set constraints or enhance a certain FOM.

Hypothesis 6 mentions: *The entry success of globalizing internationals into a foreign market depends on the market conditions, the partner chosen, the FOM chosen, the level of commitment as well as the country regulations.* After reviewing the interviews, this has proven to be true; when a company is developing a FOM, their success does not only depend on this FOM chosen, all the variables mentioned above play an important role on the company's success in a foreign market. Globalizing internationals must understand

that one strategy does not generally fit all countries; this is why Hypothesis 6 has been slightly modified to incorporate that last thought into Fact 6.

F6: One strategy does not generally fit all countries; the entry success of globalizing internationals into foreign markets does not only depend on the FOM chosen, but also on the market conditions, the partner chosen, the company's level of commitment as well as the country regulations.

Hypothesis 7 talks about FOM switching by saying: *FOM switching can be used by globalizing internationals when moving from an international company to a global company, in order to improve their business situation in the foreign market and/or manage rising challenges, end undesired partnerships, cut costs or adapt to their new needs.* The above statement has been considered partly true; after reviewing the interviews, the participants mentioned that the main motives for switching a FOM into another FOM are, for one, to end undesired partnerships, to help them adapt into new market situations, to have better governance and to seek better profitability. Thus, Hypothesis 7 has been modified to look the following:

F7: FOM switching is used by globalizing internationals when looking to end an undesired partnership, to help them adapt into new market situations, to help them have better governance and to seek better profitability.

Last but not least, Hypothesis 8 says: *FOM combination can be used by globalizing internationals in their change from international to global in order to manage unrelated business units in their global operations.* In the case of Wärtsilä, this has proven to be the case; the few cases in which they have used FOM combination in the BRIC countries have been to manage unrelated business units. Therefore, Hypothesis 8 and Fact 8 will be the same. All of these new re-formulated statements can be seen in Table 6 together with the initial hypotheses.

Table 6: Hypotheses testing table

HYPOTHESES	TESTED	NOT TESTED	RE-FORMULATION OF HYPOTHESES INTO FACTS
H1: The main motivation of globalizing internationals for entering BRIC economies is gaining local market access, customers as well as new business opportunities.	X		F1: The main motivation of globalizing internationals for entering BRIC economies is gaining access to these fast growing local markets as these have a big business potential, their customers are located there and they can gain important local knowledge.
H2: Once a firm goes from international to global, the importance of resources to enter a market decreases.	X		F2: Once a firm goes from international to global, the importance of resources to enter a market decreases
H3: The higher local market knowledge and international knowledge top management has, the more they will be willing to invest on a higher commitment FOM.	X		F3: The higher local market knowledge and international experience top management has, the more they will be willing to invest on a higher commitment FOM.
H4: Globalizing Internationals must assess the market conditions, economic development, regulations and risk factors in the target market before choosing a market and developing a foreign operation method.	X		F4: Globalizing internationals must assess the market conditions and future competitors, economic development, regulations and risk factors in the target market as well as to be aware of their culture and business culture and be able to adapt to it.
H5: Government and regulations, as well as the economic development in BRIC countries play a big role on globalizing international's when	X		F5: Globalizing internationals must be flexible and able to adapt to changing situations, given that government and regulations as well as the economic development play a big role on the development of a FOM and they might set constrains or enhance a certain FOM.

choosing a market and developing a FOM, as they might set constraints or enhance a certain FOM.		
H6: The entry success of globalizing internationals into a foreign market depends on the market conditions, the partner chosen, the FOM chosen, the level of commitment as well as the country regulations.	X	F6: One strategy does not generally fit all countries; the entry success of globalizing internationals into foreign markets does not only depend on the FOM chosen, but also on the market conditions, the partner chosen, the company's level of commitment as well as the country regulations.
H7: FOM switching can be used by globalizing internationals when moving from an international company to a global company, in order to improve their business situation in the foreign market and/or manage rising challenges, end undesired partnerships, cut costs or adapt to their new needs.	X	F7: FOM switching is used by globalizing internationals when looking to end an undesired partnership, to help them adapt into new market situations, to help them have better governance and to seek better profitability
H8: FOM combination can be used by globalizing internationals in their change from international to global in order to manage unrelated business units in their global operations.	X	F8: FOM combination can be used by globalizing internationals in their change from international to global in order to manage unrelated business units in their global operations.

4.4 Conclusion

This empirical section aimed to test the hypotheses presented in section 2.6 of this research by contrasting them with the information gathered through the 12 interviews conducted. On a general note, all hypotheses were tested to be true and valid, however, some of them were lacking some important facts. For the purposes of improvement of the research, the hypotheses were transformed into “Fact” sentences by incorporating the new information acquired from the interviews. Firstly, the gathered data was described; the hypotheses were introduced together with several interview quotes that would relate to each of these. Once this was done, the next section aimed to interpret the described data and try to improve the originally created statements. Key words like *flexibility* and *adaptability* seemed to be lacking from the hypotheses despite of the fact of these being extremely relevant.

After all the analysis, six out of the eight hypotheses were improved to include key words the interviewees had provided (see Table 6); Hypothesis 2 and Hypothesis 8 therefore have remained the same as the original statement. Some of the major key findings are the following; the importance of knowing a country’s culture and business culture, the ability to be flexible when facing changing situations as well as the ability to adapt to these, one strategy does not fit all the countries you enter, experience is key to making better decisions, as well as the reasons why a company may change or combine FOMs. All of these findings will be discussed in the below section.

5. CONCLUSIONS AND RECOMMENDATIONS

This section will summarize the main key findings of the research; after that the theoretical implications will be discussed and contrasted with the initial research questions in order to see if these were answered. Furthermore, the theoretical contributions section aims to seek a possible contribution to existing literature by examining if new insights have been produced. This section is followed by the managerial implications; there the researcher assesses how the results found can be of service to the case company's management team. Last but not least, the limitations of the study will be exposed together with possible future research suggestions.

5.1 Summary of the key findings and theoretical contributions

The main aim of this report was to identify the main influencing factors that have an effect on globalizing international's internationalization process into the BRIC countries. Furthermore, other than analyzing these influencing factors, the research had two other objectives; one was to analyze the effects of the change from an international to a global company and, the second was to understand the role of FOM switching and combining. The reason for researching this topic was because of the lack of literature researching globalizing internationals entering emerging markets and linking it to FOM and influencing factors. In this section both the key findings and the theoretical contributions will be discussed.

There are many authors that have studied both internal and external factors influencing market selection (Koch 2001; Cavusgil 1980; Johanson 1997; Hamel and Prahalad 1994; Backhaus and Meyer 1986; De la Torre and Neckar 1990; Kobrin 1979) and foreign operation method selection (Andersson et al. 2004; Stinchcombe 1965; Storey 1994; Bonaccorsi 1992; Calof 1993; Cavusgil et al. 2002; Westhead et al. 2001). However, these fail to mention the importance of getting to know not only a country's culture but also their business culture. This is highly important to remark as the country in question might differ from our own. Some countries require the building of a personal relationship before

they can talk about a professional relationship; in other words, the building of trust is crucial for making business in most of the Asian countries, for instance.

Another point that was missed in the literature was the need as a company to be flexible when facing changing situations as well as the ability to rapidly adapt to these changes. When talking about emerging markets we are not always talking about clear democracies; many times these countries have a very volatile political scenario or politics that are highly involved into businesses. When facing this, one cannot always expect certainty that the situation will remain the same; this one may change for the better, but sometimes for the worse as well. This is the case in these BRIC countries; especially in Brazil and Russia. Brazil has recently faced a major corruption scandal that has damaged trust and reliability in many business partners; that together with the drop on oil prices has strained their economic situation. Russia's foreign investments have been seen affected because of the financial sanctions applied to the country as well as their unstable political situation. Therefore, when faced with cases like the above, companies need to be able to make fast strategic decisions in order to minimize their financial liabilities.

When talking about the choosing of a foreign operation method for these BRIC countries, while similar in some cases, the interview participants agreed that just one strategy does not fit all countries; even if you are considered a global company. In the case of Wärtsilä, the change from an international to a global company has not affected their way of conducting their internationalization activities. While they have agreed to have modified and developed their FOM thanks to the experiences acquired along the way, the company has had an internationalization model that could be applied in most cases. This model consists in the use of agents as an initial method to enter a country and once their volume is high enough, start considering what kind of own set-up to enter that country with. This model has been used throughout Europe and Asia, however, Wärtsilä is not using this set-up in Africa. Therefore, not every strategy fits all markets.

The concepts of method switching or method combination can be considered generally recent and there is a lack of extensive research on these (Pedersen et al. 2002; Welch et al. 2007; Anderson and Narus 1990; Shamdasani and Sheth 1995; Coughlan et al. 2006).

After reviewing all the information gathered from the interview, there seemed to be an agreement in what triggers the need for a method switch; first and foremost, when the company wishes to end an undesired partnership. Sometimes, when entering into a joint venture, one might have expectations from the partner that are not met in the end. Or, for instance, the two partners end up having different business goals. In this situation it is best to divest from the partnership and either start a wholly owned venture or seek another partner. On the other hand, a company might end a partnership in order to have better governance over their decisions or to seek better profitability out of the business. Another reason for mode switching is to adapt to new market situations; for instance, if the market is booming a company might decide to move from licensing to a higher investment FOM. When it comes to mode combination, Wärtsilä does not have extensive experience with this; the only time where they have combined methods with the same partner, licensing and joint venture, has been to manage 2 of their unrelated business units. So in regards of the information gathered for this research, while other companies might use mode combination for other reasons, it will be stated that mode combination has only been used for separate product lines.

All in all, it is clear that there are a lot of different variables playing a crucial role into the internationalization of companies into emerging markets. However, the above were the ones thought to be missing from the literature researched in this study.

5.2 Managerial implications

There are several managerial implications that can be drawn from the interviews taken from this research. This section seeks to draw possible suggestions for the management team to consider in their ventures abroad. Emerging markets' way of working differ highly from Finland's way of conducting business, and that is something to always keep in mind. The ability to be flexible when facing adverse situations, as well as creating a personal relationship, is highly important in certain countries. Despite Wärtsilä being a well-adapted company globally, it was remarked that perhaps a deeper country knowledge is needed in certain cases, so that the company becomes aware of the local

labor practices. The main aim of this is to make it easier for Wärtsilä to be a good employer and still be considered as a local contender. It is important to understand what is normal in a certain country in order to act in such manner. What western mentality might consider as normal and fair, might not fit the way of working of an Asian country like China, for instance. It needs to be understood that a country's culture is not the same thing a country's business culture, each market might present a different approach and Wärtsilä needs to be aware of this and ready to approach it.

Another issue brought up was that in order to be able to develop a fit strategy matching the company's goals for business development, there is a need for a deeper research to have highly competent staff in all fields of the business. This would for sure enhance Wärtsilä's chances to success and it can be done in different ways; one way is to establish a good talent management program, in which employees are encouraged to keep their training up-to-date with the goal of a good career path. Another way would be through setting strict hiring standards requiring future employees to be in-line with the company's values, goals and views. Employees are the ones that make or break a company in many cases, therefore, constant motivation and a future view will enhance their competitiveness.

A good point of reflection would be analyzing how the internationalization strategy of Wärtsilä has evolved from the change of an international company to a global company. When doing that, the learning process might help creating a new a better strategy for the years to come. The results of this research can be applicable to emerging countries with similar conditions to the ones described, as generally, the market conditions tend to be of similar characteristics.

5.3 Limitations and Future research suggestions

To begin with, the limitations this study has will be discussed; it is common knowledge that one single case study research is less contrastable than a study that has chosen different sources of information. Therefore, while this study managed to get deeper

information, as the focus was only set on one case company, the findings cannot be generalized due to the fact that they most likely only apply to the case company. Because the case company in this research was studied via interviews, no quantitative data was extracted or implemented in this research; instead, the participants' opinions and experiences were taken into account. Because of this, the research might be more subjective and less rigorous than a quantitative study would be. Furthermore, this research focused solely on the BRIC countries, therefore, the findings cannot be applied to other emerging markets as they may differ in the essentials. All in all, the applicability of this research relies mostly on the case company, however, the influencing factors having an effect on companies entering the BRIC countries could be applied to companies entering countries with a similar background.

The findings of this research would benefit from a more extended study done on more case companies, of the same standards, so that the research could be better contrasted and generalizations could be made. Furthermore, it would benefit, especially the current case company, to perform a similar research on future potential countries that might be on the rise in the ship building or power plant industries. During the interviews, Vietnam was mentioned as one possible candidate for future growth, despite their current political situation is too unstable and not transparent enough. Furthermore, the African continent's need for power is on the rise, therefore, Wärtsilä should pay close attention to its potential for business.

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APPENDIXES

APPENDIX 1. Interview Questions

1. Background information of interviewee:
 - a. Name:
 - b. Office location
 - c. Years in the company
 - d. Background in the company

Internationalization of the company to BRIC countries - Operation methods:

2. What is your experience with foreign business operation methods?
3. What is your process for entry method choice? What are the best steps towards this choice?
4. When did Wärtsilä begin its internationalization process?
5. Did Wärtsilä start internationalizing to countries similar to their home country?
6. How has the change from an international company to a global company affected the operation modes and their development? Has Wärtsilä implemented integration across countries and HQ involvement, or is it locally managed?
7. Has Wärtsilä used mainly the same/similar operation modes in the BRIC countries, or does the operation mode vary depending on the target country? Has Wärtsilä standardized their operation methods throughout their international activities?
 - a. *The cooperation in Brazil started in 2006 with a licencing agreement; Why do you think licencing was the chosen entry method, and how has that evolved today?*
 - b. *Russia was entered with a licencing agreement in 2007, opened a service centre in 2009 and established a joint venture in 2010; why was licencing chosen as a primary method and what has been the situation from 2010 until today?*
 - c. *Wärtsilä entered India in 1988 with a greenfield wholly-owned subsidiary; in 2003 Wärtsilä increased their ownership to 89,69%. In your opinion,*

why was a greenfield WOS the best method? And what is the situation and the operation method predominant in India today?

- d. *China was entered in 2003 with a joint venture agreement with CME for properller manufacturing; since then Wärtsilä has had a very stable evolution and continued to enter into joint ventures, the latest being in 2015. Why are JVs the best operation method for Wärtsilä in China? Why do you think it was possible for Wärtsilä to have such a stable internationalization into China without the need for method change?*
8. What do you believe are the triggers for the operation method changes previously discussed?
 - a. How successful the operations in these countries have been and what role the operation mode or change of mode has had?
9. How useful or effective has mode combination been for Wärtsilä, in your experience?
 - a. What type of operation mode packages have been used in the BRIC countries, if any?

Influencing factors and BRIC Emerging markets

10. In your opinion, what makes an emerging market more attractive for businesses?
11. What have been the primary motives for Wärtsilä to internationalize into BRIC countries?
12. What needs to be done differently when approaching any of the BRIC countries?
13. What Challenges has Wärtsilä faced when entering these BRIC countries?
 - a. How big of an influence have been the government and regulations in these countries, and what role have they played into Wärtsilä's entry to the country?
 - b. How has the economic development influenced the selected operation modes and changes in these countries?
 - c. What other environmental factors had an effect on the entry success of Wärtsilä?
 - d. Has adaptation been needed in these countries?

APPENDIX 2. Email sent requesting interviews

Dear [x],

My name is Marta Lozano, and I am currently writing my Master's Thesis for the University of Vaasa. I am writing to invite you to participate in my thesis research to gain in-depth understanding about Wärtsilä's internationalization and globalization into the BRIC (Brazil Russia India China) countries. You were recommended to me by [x] as he/she mentioned you might be able to provide me valuable information about Wärtsilä's history and past actions in these countries.

The main goal of my research is to assess what has an influence, both positively and negatively, on the internationalization of Wärtsilä into these countries. The interviews are aimed to be one-time face-to-face interviews and it would last about 1 hour. If a face-to-face interview is not a possibility, the questions can also be answered via Skype or in a written form in the document attached. The interviews would be recorded in order to make the transcript easier, and later on the chosen quotations from the transcript would be sent to you for final review.

I attach the interview template I have for you to review.

Thank you very much for your time in advance.

Best Regards,

Marta Lozano Segarra